TRANSFORMATION

EPCOR Annual Report 2001

Vision Statement

We provide essential elements for living.
Today and tomorrow.
We create enduring customer relationships and enrich the quality of life for the people, businesses and communities we serve by providing cost-competitive and reliable services.
We will increase shareholder value as the leading provider for power, water and natural gas in Alberta, and will become North American in scope.
We build on the strengths of our existing skills and assets through flexibility and innovation.

TRANSFORMATION

Transforming Hard Work Into Results

EPCOR was again rated as one of the best places to work, in Richard Yerema's book: *Canada's Top 100 Employers.* Several criteria were used to select the top 100 employers from 5,000 growing businesses in Canada. The treatment of employees in relation to work environment, communication within the organization and benefits were major determiners, as was the ability to hire and retain the best employees.

All employers like to believe they provide a positive and fulfilling work environment that sets them apart from other organizations. They also want to believe they hire and keep the best employees. And EPCOR is no exception. Being included in *Canada's Top 100 Employers* confirms that EPCOR provides an environment in which employees can reach their full potential. The 2001 annual report shows how the best employees, working for one of the country's best employers, are transforming EPCOR into a major player in Canada's power, water and natural gas markets.

Table of Contents

FIG 1

FIG 2

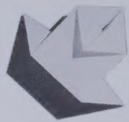


FIG 3

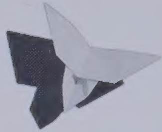


FIG 4

FIG 5

Knowledge and ability transform air into the means for flight.
The ebb and flow of its currents become the power of directed movement.

air

TRANSFORMATION

Message from the Chairman

EPCOR is a company that is transforming itself into a major player in the energy market. As was shown in 2001, it is doing so with the agility that comes of ability. And just as importantly, it is transforming itself in a deliberate, reasoned and ethical manner.

As part of my message in EPCOR's 2000 Annual Report, I said, "Never before has corporate governance been more important to the health and well being of organizations around the world."

At that time, I didn't realize how clearly that point would be illustrated in the following months. Recent events in the energy sector in the U.S. have shown EPCOR's wisdom in voluntarily implementing best practice guidelines of the Dey and laterally the Saucier reports for good corporate governance. As a result of that decision, I can say that the company is not only well managed and its activities are conducted in an open, honest and forthright manner, but I can also say with all confidence the company's governance mechanisms are best practice.

In 2001, EPCOR continued to move from strength to strength as it transformed itself in appearance, nature and structure. At the same time, it has succeeded in retaining the elements that have made it successful in the past – a committed and productive workforce, enlightened management practices and an obsession with excellence.

EPCOR's ability to continue to produce double-digit value for the shareholder in a deregulated, competitive environment is evidence of the quality of its senior management team – a team which I believe has clearly demonstrated that it is world-class in ability and performance.

The wisdom of the company's decision to proceed as an integrated utility, versus a pure play, has been confirmed by the results achieved and the growth potential that lies before us, as new markets open to competition.

From my perspective, it is becoming apparent that the company's ability to rapidly adjust to the changing circumstances of a restructured energy industry will play an increasing role in determining our success both in Canada and the United States.

I thank EPCOR employees and my fellow Board members for making my job as Chairman challenging, interesting and satisfying. I am looking forward to another rewarding year in 2002.

H. Bolton

Hugh J. Bolton, Chairman of the Board

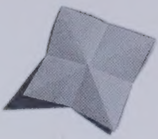


FIG 1

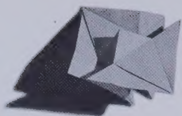


FIG 2

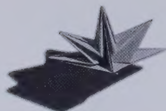


FIG 3

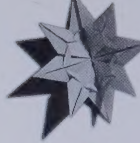


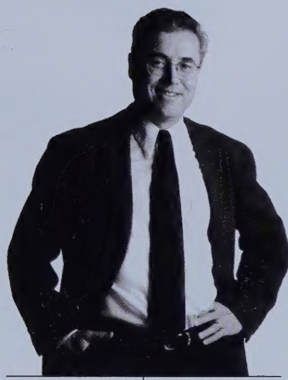
FIG 4

FIG 5

water

Water adapts to a changing landscape as it seeks its own level.
Forward motion takes water over and around the barriers it encounters.

TRANSFORMATION



Message from the President and CEO

During 2001, EPCOR continued to transform itself into a national energy company. In addition to our electricity generation, power transmission and distribution, electricity retailing, water services and gas marketing activities in Alberta, we now have holdings in Ontario, British Columbia and Washington state.

The magnitude of change we have engineered in the past few years is evident in the fact that more than 70 per cent of our revenues now come from outside Edmonton – our traditional market area only a few years ago. And as this report shows, we have managed to grow and change while still maintaining our high standards of social and environmental accountability.

EPCOR had many achievements in 2001. Despite the volatility in electricity prices and market regulations, the company delivered a significant increase in earnings over 2000. EPCOR continued to execute its business strategy as an integrated utility that has targeted retail and generation as growth opportunities.

Also of particular note is the approval of our Genesee Phase 3 coal-fired generating plant. In keeping with our commitment to the environment, the new plant, using supercritical technology, will be the most technologically advanced of its kind planned for Canada. In addition to meeting the growing energy needs of Alberta, this plant will play a significant role in revenue generation. The approval process also allowed us to demonstrate our commitment to stakeholder engagement and consultation. Individuals and businesses from the surrounding area were kept informed about all aspects of the approval process.

EPCOR's purchase of Union Energy was another step on our road to becoming one of the top three providers of energy and energy-related products in Canada. EPCOR is now serving the needs of more than 1.6 million customers nationwide.

I am particularly proud of the role EPCOR played in community development in 2001. In August, Edmonton hosted the first IAAF World Championships in Athletics to be held in North America. The World's brought global attention to Edmonton and allowed it to showcase the opportunities the city has to offer. Because of our major sponsorship, the EPCOR brand became known to all of Canada and the rest of the world.

In 2001, we also saw expansion of our community investment into the new areas we serve. For example, as the result of a significant investment on the part of EPCOR, Calgarians have a cultural centre with a stable future, with the renaming of the EPCOR Centre for the Performing Arts.

EPCOR's transformation as a company will continue into 2002 and beyond. We are continuing to think and act as a small company inside the body of a large company. We are transforming EPCOR, but at the same time we are preserving what makes us the best at what we do.

EPCOR is in a race to continue to be the best, but it is a marathon not a 100-metre dash. It will take all of our abilities, skills and commitment to gain even more ground in 2002 – something I am confident we can, and will, do.

Don Lowry

Donald J. Lowry, President and Chief Executive Officer


FIG 1


FIG 2


FIG 3

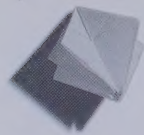
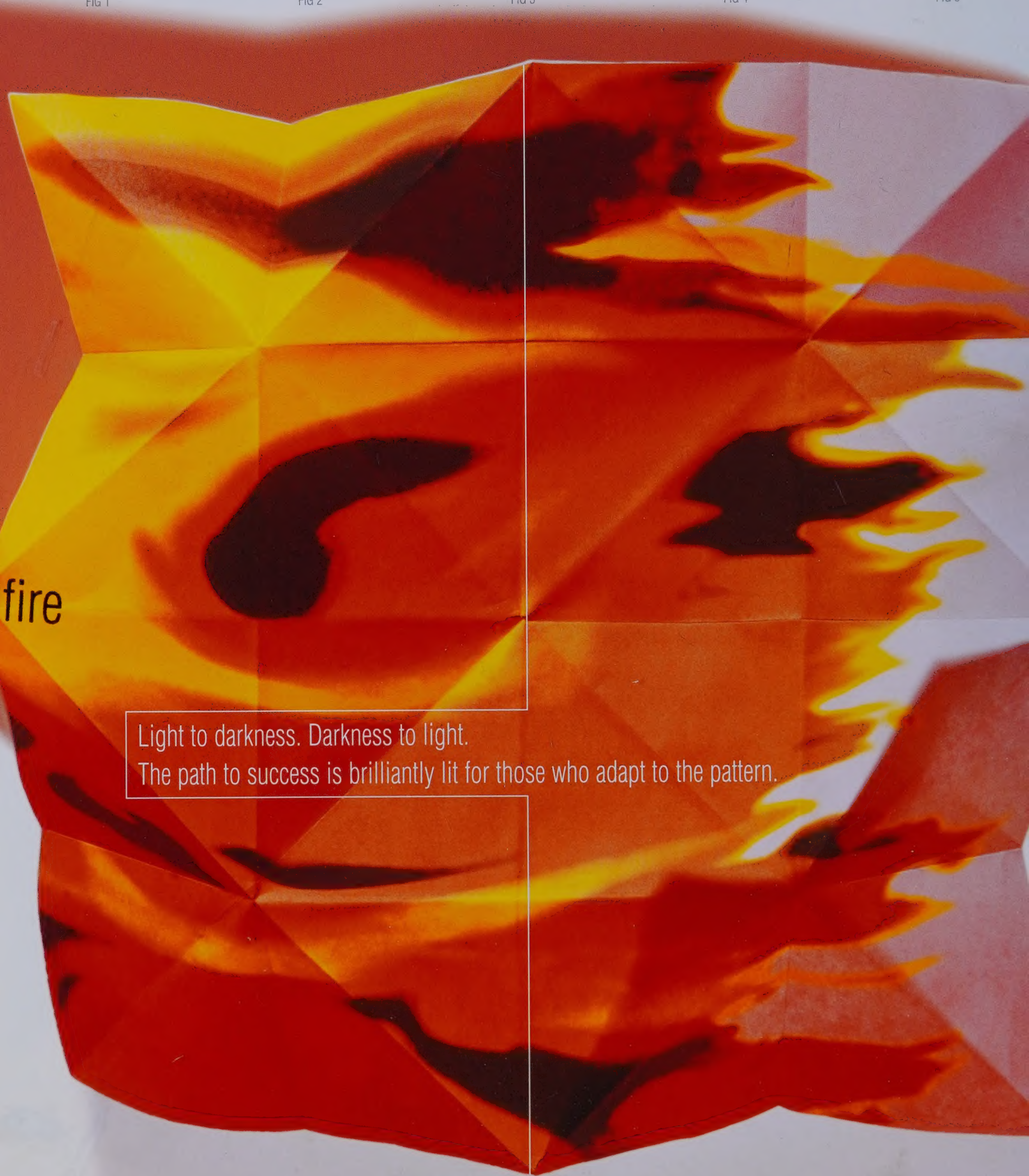


FIG 4


FIG 5

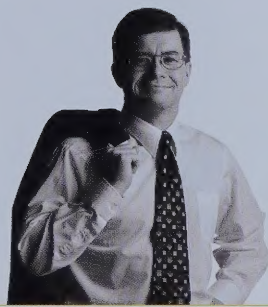


fire

Light to darkness. Darkness to light.
The path to success is brilliantly lit for those who adapt to the pattern.

EPCOR Executive

Donald J. Lowry
President and Chief Executive Officer



Mark Wiltzen
Senior Vice President
and Chief Financial Officer

Dona Perreault
Vice President Corporate Relations

David R. Wright, Q.C.
Executive Vice President,
General Counsel and Corporate Secretary

Brian Vaasjo
Executive Vice President
and President Energy Division

Rob Armstrong
Senior Vice President
Human Resources

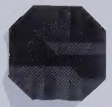


FIG 1

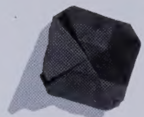


FIG 2

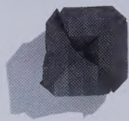


FIG 3

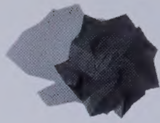


FIG 4

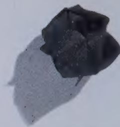


FIG 5

TRANSFORMATION

Transformation through critical mass

EPCOR Utilities Inc. is the first strategic linking of power, water and natural gas utilities in Canada. This linkage has enabled the momentum that is evident in the growth of its lines of business.

Though the City of Edmonton is the company's sole shareholder, EPCOR is governed by an independent Board of Directors. EPCOR is financially independent of the City of Edmonton and in 2001 it had credit ratings of A- and A (Low). With the 2001 acquisition of Union Energy, EPCOR's corporate-wide workforce grew to 3,500 employees. At the end of fiscal 2001, the company had assets of more than $4.5 billion.

2001 was marked by success, but the year was not without its struggles. Industry restructuring helped create unparalleled challenges. Electricity and gas prices rose and fell dramatically and, understandably, customers wanted to know why and what to expect in the future. The increase to approximately 600,000 Alberta electricity customers also put EPCOR's customer support services to the test. In light of the continuing challenges brought about by the restructuring of the electricity industry in Alberta, new processes have been, and will continue to be, put in place to provide the levels of service EPCOR customers have come to expect and deserve.

In 2001, EPCOR Utilities Inc. reorganized its corporate structure into three areas to more accurately reflect how it conducts its business. The company is made up of an Energy Division, an Infrastructure Division and Corporate Services.

Energy Division

Generation

EPCOR Generation Inc.

EPCOR Power Development Corporation

Energy Services

EPCOR Energy Services Inc.

EPCOR Merchant and Capital L.P.

Union Energy Inc.

Infrastructure Division

EPCOR Distribution Inc.

EPCOR Transmission Inc.

EPCOR Water Services Inc.

Corporate Services

EPCOR wind turbine – Weather Dancer 1

EPCOR Generation Inc.

EPCOR Generation Inc. owns and operates three previously regulated generating stations with total gross capacity of 1,701 megawatts (MW):

- Genesee (coal-fired, 820 MW)
- Clover Bar (natural and landfill gas-fired, 660 MW)
- Rossdale (natural gas-fired, 221 MW)

The company also operates the Weather Dancer 1 wind turbine (900 kilowatts) in southern Alberta and the hydroelectric generating station at Brown Lake (7 MW) in British Columbia for EPCOR Power Development Corporation.

EPCOR Generation Inc. supplies electricity to holders of Power Purchase Arrangements. Total generation in 2001 accounted for approximately 18 per cent of provincial demand.

Transforming experience into new business opportunities

In 2001, EPCOR Generation began operating in a deregulated environment. Rather than being subject to an annual regulatory review, EPCOR Generation-owned plants became subject to long-term Power Purchase Arrangements (PPAs).

Responding to the new demands of a deregulated electricity market meant adapting to change. One of the ways EPCOR Generation did that was to implement a PPA settlement system, which allows the company to meet the complex billing calculations and requirements of the PPAs. EPCOR Generation also worked with the holders of its PPAs and other stakeholders, as well as plant operational staff, to ensure a successful transition into the deregulated market.

A reputation for reliability

As EPCOR Generation grows and evolves, it is still reliability that sets the company apart. In 2001, the Canadian Electricity Association released its 2000 reliability ranking for fossil fuel units in Canada. The top four scores in both categories – availability and production reliability – were given to EPCOR's four generation units at the Clover Bar Generating Station.

EPCOR captured six of the top ten spots for availability, with Genesee Unit #1 occupying the sixth spot and Rossdale Unit #9 occupying the ninth.

A record of safety

It was also the employees of EPCOR Generation who set the company apart. Safety continued as a top priority. For generation businesses in its grouping in Canada, EPCOR Generation had the lowest rates in the categories of Disabling Injury Frequency Rate and Severity – the top ranking. In addition, EPCOR Generation had the second-best ranking in the category of Injury/Illness Frequency Rate. These rankings were from statistics released in 2001 by the Canadian Electricity Association for the year 2000.

The focus in 2002 will be on continuing strong performance with respect to reliability, safety and the environment. Staff development and training will continue to be a priority.

EPCOR Power Development Corporation

EPCOR Power Development Corporation owns, in whole or with partners, merchant generating stations built after January 1, 1996. These include:

- Joffre – cogeneration facility in Alberta
- Genesee Phase 3 (under construction) – coal-fired plant in Alberta
- Taylor Coulee – hydroelectric station in Alberta
- Weather Dancer 1 – wind turbine in Alberta
- Frederickson (under construction) – natural gas combined cycle plant in Washington state
- Brown Lake – run-of-river hydro facility in British Columbia
- Miller Creek (under construction) – run-of-river hydro facility in British Columbia

Transforming knowledge into power

EPCOR has been effectively addressing the high demand and low supply of electricity in Alberta. In late 2001, the proposed development of Phase 3 at the Genesee Generating Station was approved by the Alberta Energy and Utilities Board (AEUB). EPCOR's four new Alberta generating stations will have added 879.9 MW to Alberta's capacity by 2005.

Using the best technology

From the outset of the Genesee Phase 3 (GP3) project, EPCOR was committed to using the best commercially available technology. When the AEUB approved GP3, it cited the plant as being the most technologically advanced pulverized coal-fired power plant planned for Canada. GP3 is the first coal-fired power plant approved by the AEUB in more than 20 years.

Approval of GP3 was also facilitated by the comprehensive environmental impact assessment application that was undertaken and the extensive public consultation process.

Raising the bar

As Don Lowry, President and CEO of EPCOR, pointed out after the GP3 decision was announced, the commitment to assemble such sophisticated technology dates back to the original planning for the facility, "In December 2000, EPCOR announced its intent to adopt the best available, commercially-proven technology, and to raise the bar, both in terms of environmental standards, as well as public consultation, for our Genesee Phase 3 project. I believe we have succeeded on both fronts."

Supercritical = super efficient

At the heart of the GP3 project is the supercritical boiler/turbine system – the first of its kind in Canada. In typical systems, the boiler burns coal to boil water to produce the steam that drives the turbine. The GP3 process is almost the same except that, instead of boiling, when the water is heated at the much higher, supercritical pressures, it turns directly into steam and, on reaching the required temperature, is fed into the turbine.

The turbine has to be specially designed to work at these higher pressures with the result that the overall operation is more efficient. Less coal is required and this translates into lower carbon dioxide emissions per unit of production.

Reducing emissions

Emissions control is another key consideration in the plant design and additional technologies will reduce emission outputs in several areas.

A special flue gas desulphurization unit will reduce sulphur dioxide emissions from the burning of coal by approximately 70 per cent per kilowatt-hour compared with the existing Genesee units, far exceeding current provincial requirements.

Low nitrogen oxide (NO_X) burners will decrease the amount of NO_X produced by more than 50 per cent per kilowatt-hour compared with existing units. As well, solid particulates of non-combustible material will be collected by fabric filters that remove 99.8 per cent of particulate matter.

Long-term power

The $695 million project will be completed in early 2005, and will add 450 MW to the Alberta power grid. The facility will be situated adjacent to the existing Genesee Generating Station. Both plants will be fuelled by the existing Genesee Mine. There is enough coal dedicated in the Genesee coalfield to supply the entire facility for the economic life of the project.

The overall project will create 3,960 person-years of direct, indirect and induced employment during its three-year construction period. As Don Lowry points out, "The new capacity from Genesee Phase 3 will help sustain Alberta's economic growth by providing a more secure power supply and reducing the volatility of electricity pricing for our province's homes and businesses."

EPCOR Energy Services Inc.

EPCOR Energy Services Inc. provides electricity and natural gas retail services to more than 600,000 residential, business and industrial customers across Alberta.

Transforming the challenges of change into a new reality

With new realities come new challenges. And with every challenge comes the opportunity to grow and transform. In 2001, the need to adapt to new challenges was never more pressing.

Restructuring of the electricity industry meant changing at a pace that had never existed before. Rapid growth and the acquisition of new customers challenged EPCOR Energy Services' ability to respond to customer needs effectively as the customer base more than doubled with the acquisition from UtiliCorp Networks Canada in December of 2000. The integration of new and existing internal and external systems impacted billings, application/enrollment and turnaround times.

When issues were identified, new procedures and methods for dealing with customer inquiries were implemented. New customer care training programs were established. Energy contracts were developed. And a substantial investment was made to ensure Alberta government rebates were processed efficiently and effectively.

To highlight its commitment to its customers, EPCOR Energy Services embarked on an ambitious and successful mass-market door-to-door campaign. The objective was to listen to customers' needs and to offer energy saving options ranging from household efficiency tips to competitive utility contracts. As a result of this campaign, EPCOR Energy Services signed residential and small commercial contracts in approximately 40 communities across Alberta.

EPCOR held customer events across the province – providing information during a time of massive confusion about electricity restructuring. EPCOR Energy Services was also the first in the province to introduce residential farm and small commercial electricity offers.

2002 will be a year to focus on the essentials. EPCOR Energy Services will be completing the integration of previous UtiliCorp customers into the EPCOR systems. Customer care and customer relations will continue to be top priorities. This will require a province-wide alignment of processes and procedures and further refining of the timing and accuracy of billing. These activities will set the base for future growth and integration of services outside of Alberta.

Transforming the marketplace

New times call for fresh approaches. In 2001, EPCOR Energy Services staff responded to the challenges of a rapidly changing retail energy environment with an all too often overlooked approach – they talked to customers face-to-face.

In May 2001, a small-scale door-to-door campaign was conducted in Edmonton and Calgary. Sales staff provided energy efficiency information and utility contract options to customers who were trying to understand the changing utility industry. The customer feedback was so positive that the original initiative escalated into a full-scale program by year end. Together the two programs reached more than 150,000 homes in 40 communities.

As Cairine MacDonald, President of EPCOR Energy Services, points out, "It was the right approach at the right time. People were looking for answers and choices in light of the first year of electricity deregulation and wildly fluctuating natural gas prices. EPCOR responded by being first-to-market with competitive mass-market electricity offers and fixed-price term offers for natural gas. I know people really appreciated seeing EPCOR in their communities because we provided them much needed information and viable options during a period of significant change."

Though the energy market has changed, Cairine MacDonald believes the experience of EPCOR Energy Services shows that people have not, "We expend a lot of effort contacting our customers, and in the age of the Internet and direct-mail campaigns, it's gratifying to see how basic, person-to-person contact still generates results."

EPCOR Merchant and Capital L.P.

EPCOR Merchant and Capital L.P. (EMC), a wholly-owned subsidiary of EPCOR and headquartered in Calgary, is a provider of energy products and services to the large industrial and wholesale markets in Alberta, British Columbia, Ontario and the Pacific Northwest. EMC manages EPCOR's consolidated energy book within established guidelines.

EMC offers its customers tailored energy products to meet their individual needs. In 2001, EMC handled a level of energy transactions exceeding 40,000 GWh (equivalent) in its first year of operations.

As part of its operation, EMC is responsible for the management of the Battle River (3,4,5) and Sundance (5,6) Power Purchase Arrangements acquired in the Alberta PPA Auction in late 2000. A portion of the output associated with these Power Purchase Arrangements was syndicated to four key industrial users of power in the province of Alberta, consisting of Alberta Newsprint Company, Dow Chemical Canada Inc., Millar Western Forest Products Ltd. and West Fraser Timber Co. Ltd. Along with EPCOR Utilities Inc., this unique commercial arrangement provides a critical underpinning to the Alberta operations of each partner.

Union Energy Inc.

Union Energy Inc. provides service to more than 900,000 customers in Ontario, Manitoba, Alberta and British Columbia. A pioneer in the deregulated energy services sector, Union Energy rents water heaters and supplies and services heating and air conditioning systems. It is a leader in the design, installation and service of commercial heating and air conditioning systems. The company also provides heating, ventilation and air conditioning financing to customers across the country.

The purchase of Union Energy in 2001 reflected EPCOR's long-term strategic plan. It was clear there was little room to grow in the Alberta retail market. If the economies of scale inherent in a large customer base were going to be realized, new customers would have to be found outside the borders of the province. Ontario was targeted because it was moving toward deregulation and only a deregulated marketplace would provide the kind of opportunities for growth EPCOR was looking for in both retail and generation.

In addition to creating a significantly larger customer base, the purchase of Union Energy provides for some unique marketing opportunities. In both Alberta and Ontario it will allow EPCOR to deepen its relationship with its customers. In Ontario, EPCOR will be able to market bundled energy services to Union Energy's rental customers. In Alberta, EPCOR will examine the feasibility of marketing the kinds of services Union Energy provides in Ontario.

Brian Vaasjo, Executive Vice President of EPCOR and President Energy Division, and Vaughn Goettler, President and CEO Union Energy Inc., announce EPCOR's purchase of Union Energy in October, 2001

EPCOR Distribution Inc. and EPCOR Transmission Inc.

EPCOR Distribution Inc. and EPCOR Transmission Inc. provide electrical distribution in Edmonton and transmission in Alberta through:

- 4,248 circuit km of distribution lines (1,842 circuit km aerial and 2,406 circuit km underground) and 273 distribution feeders
- 188 circuit km of transmission lines (approximately 93 circuit km aerial and 95 circuit km underground) and 26 high-voltage facilities

EPCOR Transmission Inc. makes up approximately nine per cent of the provincial transmission revenue requirements. It also provides services to the Transmission Administrator who manages the provincial power grid.

Transforming experience into success

The whole world was watching. Failure was not an option.

As the supplier of electrical distribution services for the 2001 World Championships in Athletics, EPCOR Distribution knew it faced two real challenges. One was to provide a reliable supply of power for Commonwealth Stadium and other venues. The second was to continue to do the same for its existing customers. The end result? A gold medal performance.

Rising to the challenge

Meeting the power requirements of the World Championships in Athletics was both challenging and demanding as was working within a newly-implemented, performance-based regulation environment. Succeeding in this environment meant shifting away from traditional approaches and re-evaluating the way a utility is run.

EPCOR Distribution is the first electrical utility in Alberta to move to Performance Based Regulation (PBR) and 2001 saw the start of this shift in operations. This regulation sets out specific annual targets in the areas of safety, reliability and environmental performance. Targets are independently audited and failure to meet them can result in financial penalties being assessed to the company. Implementation will be followed-up by examining more efficient processes for maintenance and operations schedules as well as service offerings.

In 2001, safety for both the public and EPCOR employees remained a top priority. Environmental protection and preservation has also remained a top priority and was demonstrated by EPCOR Distribution and Transmission receiving its ISO 14001 certification in June, 2001.

On your mark. Get set.

Good things are in store for 2002. EPCOR Distribution is looking to realize further benefits from its PBR system. Working within this model will allow more efficiencies to be realized. The upcoming year will also see EPCOR Distribution begin working on a five-year contract to supply electrical services for the City of Edmonton's streetlights, signals, LRT and trolley systems.

EPCOR provides service to the World's

In 2001, the EPCOR brand went global. For nine exciting days in August, Edmonton hosted the first IAAF World Championships in Athletics to be held in North America. EPCOR was a major sponsor of the event and through the strategic placement of its logo, evidence of that sponsorship was everywhere.

With the whole world watching, EPCOR Distribution had to turn in a winning performance in reliability – anything less would have been a disaster. As Ken Rowes, President of EPCOR Distribution says, "EPCOR was supplying the power and the service and we were told there would be four billion people watching the Games. In terms of a significant event, this was it."

EPCOR began monitoring and upgrading the circuits feeding the stadium in the fall of 2000. The result was a success for the World's and EPCOR. Power delivery was 100 per cent reliable.

World's tickets and events schedule

EPCOR takes customer service on the road

EPCOR Water Services Inc.

EPCOR Water Services Inc. provides water services to approximately one million people in Edmonton and Western Canada. This includes:

- 179,400 residential and multi-residential customers
- 14,800 commercial and industrial customers
- seven wholesale/regional customers

The company maintains a water distribution network with 3,000 km of pipeline, 13,800 hydrants and 42,400 valves. It operates 10 water treatment and nine wastewater treatment facilities in Edmonton, Canmore, Strathmore, and Red Deer County in Alberta and Port Hardy in British Columbia.

Continuous transformation – use to reuse – cleanly, safely, efficiently

Like water moving around barriers, discovering new and better pathways as it seeks its own level, EPCOR Water Services is seeking out the best ways to move forward in the 21st century.

Serving nearly one million people in Edmonton and 40 surrounding communities, plus other Alberta and British Columbia communities, EPCOR Water Services takes pride in providing all its customers with what matters most to them – the continued assurance of clean, safe, drinking water. To do that, EPCOR Water Services has worked closely with Edmonton's Capital Health Authority to achieve the lowest percentages of water-borne diseases found in drinking water in Alberta.

Taking it to the next level

Following a process of continuous improvement in 2001, EPCOR Water Services Inc. initiated an important internal transformation. It decided that, in order to be the best, it would have to operate as if it were in a competitive environment. As a result, it actively embraced the idea of Performance Based Rates (PBR). This new process assesses not only the quality of water, but also the reliability of its distribution to customers. The revenues of the operation are dependent upon meeting and exceeding fixed standards.

Transforming experience into innovation

EPCOR Water Services has a history of transforming experience into innovation. This has meant not only working with currently available technology, but also helping create new and better technology. As the recipient of a $95,000 U.S. research grant from the American Water Works Association Research Foundation, EPCOR Water Services will be studying the use of artificial intelligence and remote monitoring systems, determining how these innovations can be used to best treat water in the future.

In 2002, EPCOR Water Services will see the completion of the largest ultraviolet (UV) treatment system in North America. By passing water through UV light, a further level of refinement will be added to water treatment. Aimed at reducing harmful pathogens present in water, this state-of-the-art treatment will provide customers a previously unknown level of security.

Continuously improving the processes that yield high-quality water will be a top priority for 2002. Through the use of Performance Based Rates, EPCOR Water Services will continue to demonstrate commitment to customers. And through its exploration of new technologies the company will ensure the water it supplies meets the highest possible standards.

Artificial intelligence – real expertise

EPCOR Water Services' position at the forefront of adapting Artificial Neural Network (ANN) technology to water treatment operations was reinforced in 2001. EPCOR won yet another research grant from the prestigious American Water Works Association Research Foundation (AWWARF).

The importance of this grant is underscored by the comments of James Manwaring, Executive Director of AWWARF. "I am confident this joint project will demonstrate the practical application of research leading to improved drinking water quality for Canadian and U.S. citizens."

The AWWARF grant of $95,000 U.S. is part of a $265,000 U.S. project that will combine ANN and remote monitoring systems at the Port Hardy, B.C. water treatment facility. In addition to AWWARF, the University of Alberta's Department of Civil and Environmental Engineering will be providing in-kind support to the project.

The justifiable pride in winning the AWWARF grant is evident in the comments of Allan Davies, President of EPCOR Water Services, "Our project breaks new ground for the entire industry, and the AWWARF grant gives the work a great deal of credibility because there were 30 organizations competing for the funding." The study is significant because the majority of the research will be carried out at the small water treatment facility in Port Hardy. As such, the work will be particularly valuable in addressing water quality issues facing similar sized plants.

EPCOR's ANN system combines a suite of artificial intelligence software programs and extensive monitoring equipment to analyze historical conditions of raw water entering the plant for treatment. The information is then used to determine optimum treatment measures with all types of water entering the plant in various situations.

Such a system is particularly valuable in a plant where raw water quality can change quickly, and often, and the operators rely heavily on their experience as they treat the water. Since many of the treatment activities are automated, plant operating efficiencies improve. An added benefit is that trained technicians can also conduct remote operation of the plant.

"There are many applications for this kind of technology in the water and wastewater industry," explains Davies. "It allows very small adjustments to be made to the water treatment process on a second by second basis."

TRANSFORMATION

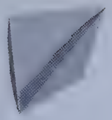


FIG 1

FIG 2

FIG 3

FIG 4

FIG 5

Community Involvement

Transforming earnings into community involvement

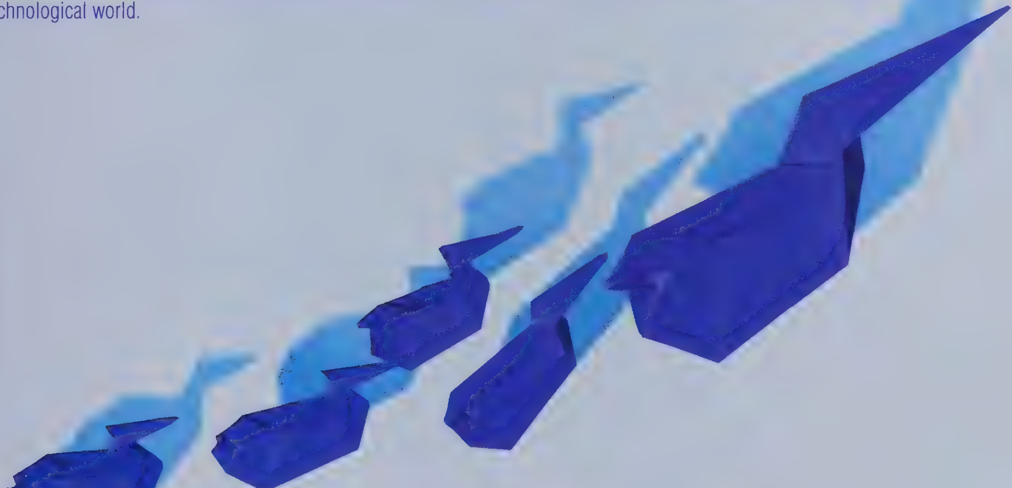
EPCOR believes the best way to build a healthy and prosperous company is to help build healthy and prosperous communities. Over the years, EPCOR has done that in a variety of ways: sponsorship, investment, volunteerism, partnerships and more.

In 2001, by acting as a National Partner Sponsor, EPCOR helped the City of Edmonton meet the challenge of hosting the 8th IAAF World Championships in Athletics. As a National Partner, EPCOR not only provided the electrical power to the major venues, but also designated two employees for an 18-month secondment to support the Games organization and supported the Championships' school education program.

As an Imagine Company, EPCOR remained among the top 500 corporate donors in Canada. And because sometimes the greatest gift is time, EPCOR continues to actively encourage its employees' volunteering efforts.

As EPCOR's geographic reach has grown from a local to a national and international level, so too has the number of initiatives it is asked to support. As a result, focus is needed. EPCOR has refined its approach to benefit those areas where it believes it can do the most good, for the most people, for the longest time.

Through consultation with its stakeholder groups, EPCOR has learned that investment in *youth and science* is the best way for it to reach its objective of creating the strongest impact. These are EPCOR's priorities. There is no better return on investment than helping our young people succeed in an ever more complex, technological world.



Highlights of EPCOR's 2001 Community Involvement

Calgary Flames – Adopt-a-Team

Calgary Hitmen Community Ticket Program

Canadian Finals Rodeo

Edmonton Fringe Festival

Edmonton International Street Performers Festival – Comedy Cares

EPCOR Centre for the Performing Arts

EPCOR Essential Volunteers Program

EPCOR Pediatric Ambulatory Clinic – Stollery Children's Hospital, University of Alberta

EPCOR School Programs

University of Alberta

The Odyssium and the thrill of finding out

The multi-million dollar expansion and upgrade that transformed the former Edmonton Space and Science Centre into the Odyssium was completed in July of 2001. The EPCOR Environment Gallery was one of the showcase components in its reopening.

The EPCOR gallery is designed for children and adults alike and presents interactive environmental exhibits and programs using a home-like setting. The range of topics and issues this gallery covers include sustainable development, conservation, recycling and global warming.

As David Lewin, EPCOR's Senior Vice President Sustainable Development, points out, "While EPCOR contributed financially, an additional, ongoing component will include programming, part of which will involve encouraging EPCOR employees to actively participate as volunteers."

EPCOR Environment Gallery

EPCOR performs in Calgary

Calgarians now have a Performing Arts Centre with a stable future, thanks to a significant contribution by EPCOR. The contribution was a component of the naming agreement for the EPCOR Centre for the Performing Arts – an agreement that will remain in place for 10 years.

When the agreement was made public, EPCOR President and CEO, Don Lowry, pointed out that the Centre is a world-class facility, and that EPCOR's support is good for both organizations, "As a strong, Alberta-based company, we are pleased to be able to demonstrate our commitment to our Calgary customers, employees and the community."

Comedy Cares – the best medicine

Laughter is an essential element in our lives. But some people find themselves in situations in which it is difficult to find humour. In recognition of the healing power of laughter, EPCOR sponsored 'Comedy Cares,' a program that brings street performers to health care facilities.

'Comedy Cares' is run in conjunction with the Edmonton International Street Performers Festival. The program began in Edmonton, but because EPCOR operates across Alberta, the show has been taken 'on the road'. Residents of hospitals and health care facilities in St. Albert, Stony Plain, Spruce Grove, Strathmore, Canmore and Ponoka have received the benefit of laughter.

Water Services Public Advisory Committee (WPAC)

Established in 1993, WPAC advises EPCOR Water Services and provides feedback on policies and programs, including water efficiency, legislative and technological changes, pricing, customer care and watershed management.

Genesee Power Project Advisory Committee (GPPAC)

GPPAC was formed in 1981 to bring EPCOR's Genesee Generating Station and mining partner Fording Inc. together with the surrounding community. The committee meets every other month and has an advisory role on issues and projects relating to the Genesee Generating Station.

Public Advisory Committee to EPCOR (EPAC)

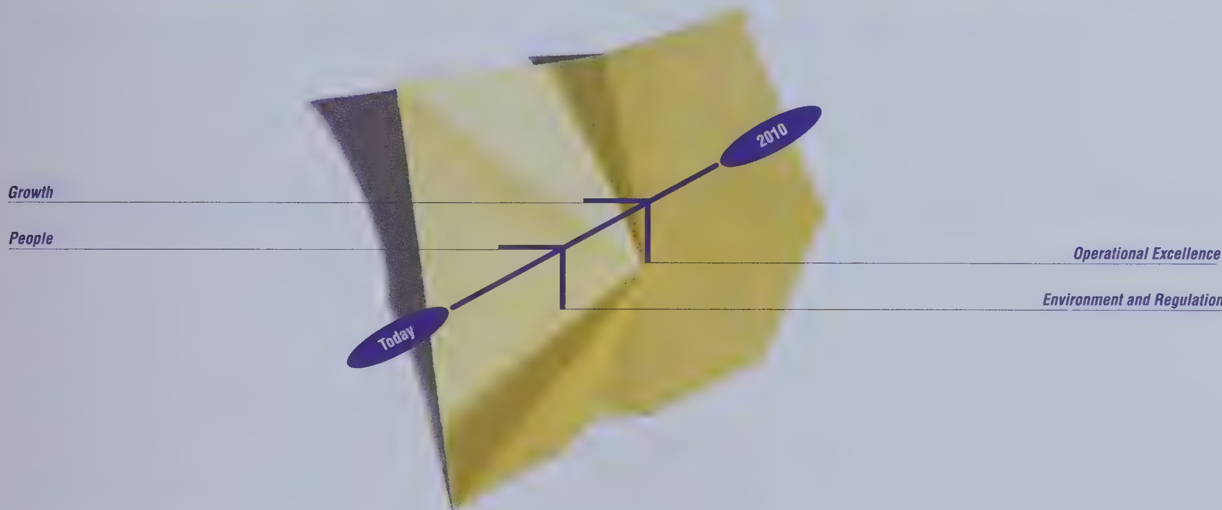
EPAC was established in 1992 as an independent advisory body. The Committee provides input and advice to EPCOR on issues of water, power, natural gas, energy conservation and the environment.

EPCOR Environment Gallery at the Odyssium


FIG 1
FIG 2
FIG 3
FIG 4
environme
Preserving the Essential Elements for Living.
TRANSFORMATION

Transforming intent into action

EPCOR is proud of the corporate philosophy it calls The Fishbone. EPCOR's Fishbone recognizes that people, operational excellence, growth and the environment are the essential elements of EPCOR's success. But success in one area can not come at the cost of success in another. This is a philosophy that also fits EPCOR's concept of sustainable development. As a result, the four components of The Fishbone are the backbone of everything EPCOR does.



Environmental protection in a deregulated market

EPCOR is not deregulated on environmental matters and there are still very strong standards regarding emissions. Environmental standards continue to be reviewed and enhanced periodically both at the provincial and federal levels.

Going above and beyond regulations with respect to the environment is good business. It allows EPCOR greater flexibility and creativity to find ways to differentiate EPCOR from its competitors.

Environmental management is part of all that EPCOR does

EPCOR's Environmental Management System is modeled after the ISO 14001 International Standard. EPCOR Generation's power plants at Clover Bar, Genesee and Rossdale were ISO 14001 registered prior to 2001.

The ISO 14001 Standard consists of:

1. Environmental Policy
2. Planning
3. Implementation and Operation
4. Checking and Corrective Action
5. Management Review

The ISO 14001 Standard enables EPCOR to formulate policy and objectives, taking into account legislative requirements and information about significant environmental impacts. The standard applies to environmental risks an organization can control and those on which it can be expected to have an influence. However, it does not specify environmental performance.

EPCOR Distribution and Transmission's commitment to the environment was recognized in July 2001 with the achievement of ISO 14001 certification for its Environmental Management System. Certification requires a rigorous ongoing surveillance program and a commitment to continual improvement with respect to the environment. EPCOR is one of only a small number of electrical transmission and distribution systems to receive this certification in Canada.

Transforming targets into achievements

EPCOR's Environmental Performance Index (EPI) is an integral part of its Environmental Management System. In addition to measuring regulatory compliance, each year EPCOR sets targets which are used to measure the environmental performance of key business activities and associated operations within the company. Results of the EPI have a direct impact on employee annual incentive bonuses.

The intent of the EPI is to encourage continual improvement of EPCOR's environmental performance, to communicate performance results internally on a regular basis and to flag areas where EPCOR's achievements are falling short of its targets.

Examples of Key Results Areas identified by EPCOR in 2001 as Environmental Performance Targets are summarized in the table below:

Key Results Area	Objective or Goal	Action Plan or Program	Target	Status
Chemical Use	Reduce the total annual amount of sulphuric acid and caustic soda used in boiler water treatment	Install Reverse Osmosis technology at Clover Bar Generating Station	Complete the installation of the Reverse Osmosis technology at Clover Bar Generating Station	Installation of the Reverse Osmosis technology was completed by the end of the first quarter
			Reduce the use of sulphuric acid and caustic soda to less than 22.5 tonnes	This target was achieved with a total usage of 22.1 tonnes
Air Emissions (NO_X)	Minimize emissions and maintain boiler efficiency	Genesee Generating Station operating procedure and emissions monitoring	No more than five per cent of hourly NO_X readings greater than 1.80 tonnes per hour (Genesee approval standard is 2.10 tonnes per hour)	Genesee remained below 1.80 tonnes per hour of NO_X emissions from the boiler stack 99 per cent or 8,631 hours of the 8,722 boiler stack operating hours in 2001
Efficient Treated Water Production	Minimize energy consumption	Plant best operating practices and procedures	Control energy efficiency to less than 650 kWh/ML of treated water	The Edmonton water treatment plants averaged 619 kWh of electricity per ML of treated water produced in 2001
Polychlorinated Byphenyls (PCB)	Remove all distribution transformers from service with PCB concentrations greater than 50 parts per million	Orginally initiated under the Federal Accelerated Reduction and Elimination of Toxics	Remove remaining transformers from service with PCB concentrations greater than 50 parts per million (Quantity: 102)	All remaining transformers with PCB concentrations greater than 50 parts per million were removed from the distribution system by the end of 2001
Landfill Gas Production	Reduce the consumption of natural gas at Clover Bar Generating Station	Supply landfill gas to Clover Bar Generating Station from Clover Bar Landfill Gas Plant	Supply Clover Bar Generating Station with 405,000 gigajoules of landfill gas (Stretch Target: supply an additional 70,000 gigajoules of landfill gas)	The Clover Bar Landfill Gas Plant supplied a total of 472,000 gigajoules of landfill gas to Clover Bar Generating Station, coming very close to achieving the 'stretch target' set for the plant in 2001
Noise	Reduce noise from the Rossdale integrated site	2001 Noise Mitigation Plan	Complete the following recommendations from the Noise Mitigation Plan: • Boiler stack modifications • Building ventilation upgrade • Switchyard noise barrier wall • ATCO gas regulating station noise reduction mitigation	Recommendations from 2001 Noise Mitigation Plan were completed. Follow up testing will be done to ensure 2001 Noise Mitigation Plan is effective
Environmental Management System	Register Distribution and Transmission business unit to ISO 14001 Standard	Complete implementation of Environmental Management System components for Distribution and Transmission business unit	Registration to the ISO 14001 Standard by June 2001	Distribution and Transmission was successfully registered as ISO 14001 compliant in 2001
Regulatory Compliance	No regulatory non-compliance with emissions and release limits	Environmental Management System	No regulatory non-compliance with emissions and release limits	In 2001, there were 9 incidents involving emissions, ambient air quality measurements or releases to the environment from EPCOR's Alberta operations that exceeded regulation, approval or guideline limits

One of the Key Results Areas is regulatory compliance. In 2001, there were nine reportable incidents.

Key Results Area	EPI Objective or Goal	Number of Incidents
Releases to Air	0	8
Releases to Water	0	1
Total Reportable Incidents	0	9

The following is a description of the exceedences that were reported to Alberta Environment in 2001:

Genesee Generating Station – surpassed the opacity limit (measure of particulate concentration) of 40 per cent set for generating unit start-up/shutdown operating conditions on two occasions.

Genesee Generating Station Boiler Stack – two incidents where the analyzer measuring NO_x concentration limit indicated that the NO_x concentration exceeded operating approval hourly limit of 350 parts per million.

Genesee Generating Station Boiler Stack – two releases of hydrochlorofluorocarbons from a refrigeration unit located on the roof of the facility.

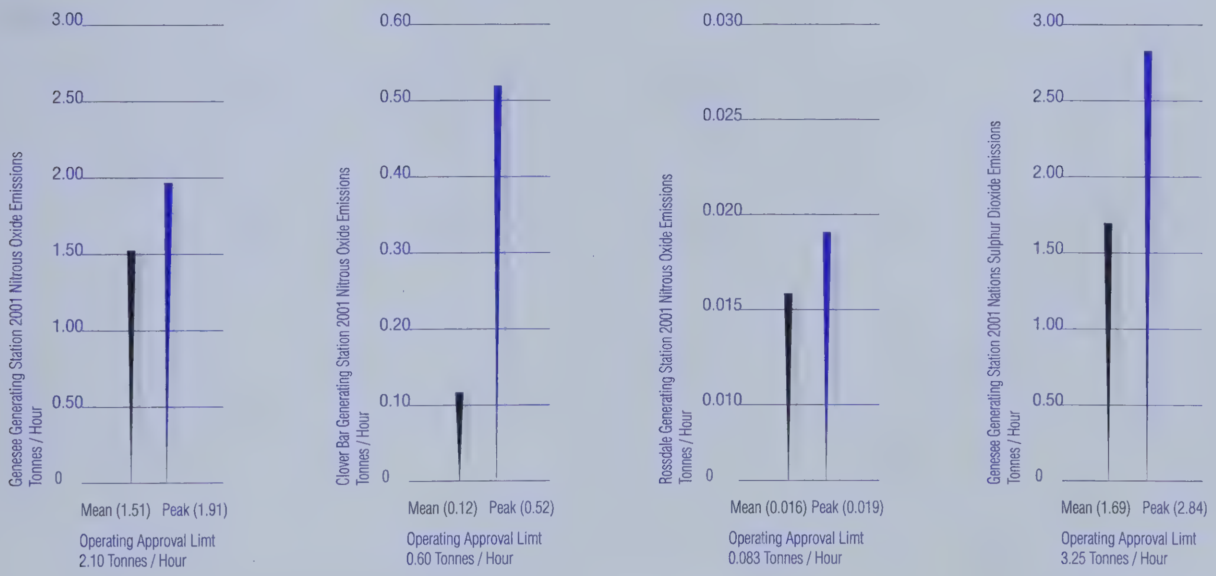
Genesee Area Ambient Air Monitoring Site – two occasions where measurement of suspended particulates exceeded Alberta Environment Ambient Air Monitoring Directive Guideline of 100 micrograms per cubic metre for twenty-four hour high volume air sampling.

Genesee Generating Station – release of sewage to the Genesee Cooling Pond.

2001 Emissions Performance

The graphs below illustrate EPCOR Generation's emissions performance for all of its generation facilities. Genesee Generating Station approval limits for nitrogen oxides (NO_x) and sulphur dioxide (SO_2) are 2.1 tonnes/hour and 3.25 tonnes/hour respectively. Clover Bar and Rossdale approval limits for NO_x are 0.60 tonnes/hour and 0.083 tonnes/hour respectively. In 2001, average and peak emissions were below provincial operating approval limits.

2001 Air Emissions Performance



Emerging Environmental Issues

Another component of EPCOR's Environmental Management System recognizes and focuses on emerging issues. EPCOR is providing input to the consultation and review process for the following issues:

Federal Initiatives

Canadian Council of Ministers of the Environment (CCME)

- Canada-wide standards for fine particulates, ozone and mercury emissions

Canadian Environmental Protection Act (CEPA)

- Proposed changes for PCB's, chloramines and ozone depleting substances
- Revision of *Thermal Power Generation Emissions National Guidelines for New Stationary Sources*

Provincial Initiatives

- Review of the process for setting new air emission standards and performance expectations through the Clean Air Strategic Alliance (CASA)

Sustainable Development

Sustainable development encompasses the social, environmental and economic impacts of business activities. What does sustainable development mean for EPCOR?

In 2001, EPCOR consulted with external experts and interested parties for the purpose of developing a working definition of "sustainable development." During 2002, the results of these consultations will continue to be incorporated into EPCOR's evolving working definition. As EPCOR maintains its journey towards sustainable development, the company will continue to work with interested stakeholders to outline an approach that is applicable to EPCOR.

Climate change and sustainable development

Climate change creates another challenge to sustainable development. Understanding the nature of the challenge requires putting it into a historical context, beginning with the events of 1992 and culminating with those of 2001.

In 1992, countries around the world banded together to meet the challenge of climate change. Realizing it might be difficult to agree on a detailed international strategy, delegates created a framework of general principles called the United Nations Framework Convention on Climate Change (UNFCCC).

In 1997, in response to growing public pressure, various international governments agreed to build on the UNFCCC by adding stronger and more formal commitments to address climate change by reducing greenhouse gas emissions. This became known as the Kyoto Protocol. To be legally binding the Kyoto Protocol must be ratified by at least 55 countries representing at least 55 per cent of the greenhouse gas emissions of industrialized countries. By the end of 2001, this had not occurred.

Ratification would commit Canada to greenhouse gas emissions six per cent lower than the nation's 1990 levels between 2008 and 2012. Due to growth, this represents an emissions reduction of between 20 to 25 per cent of Canada's current emissions.

In 2001, the United States pulled out of the ratification process.

A decision on ratification by the Canadian Government is expected in 2002. At present, there is no Canadian implementation plan and no proposed rules or analysis with respect to the implications of Kyoto ratification on the Canadian economy. In the meantime, EPCOR continues to work with and engage the federal and provincial governments on these issues.

Reducing emissions – the cutting edge

For EPCOR, the challenges of navigating the route towards sustainability provide focus for its Research and Development. In 2001, EPCOR participated in the following sustainable growth and development activities:

- Canadian Clean Power Coalition – The coalition is an association of leading Canadian coal and coal-fired electricity producers. Members are working together to develop a demonstration project for the removal of greenhouse gases and other emissions from an existing coal-fired power plant by 2007 using proven technology. This, along with other projects, will directly address air quality issues in an effort to develop the next generation of coal power technology with a new, full-scale demonstration plant by 2010.

- ZECA Corporation – EPCOR was a founding member of the Zero Emissions Coal Alliance, which was formed in 1999 and includes Canadian, American and international members. In December 2001, the alliance was incorporated as the ZECA Corporation. As the name suggests, ZECA is working on a zero emissions concept that involves the hydrogasification of coal to produce carbon dioxide and hydrogen. The ultimate objective is to demonstrate the possibility of at least doubling the net efficiency of coal-based power generation using fuel cell technology, while also producing a stream of relatively pure carbon dioxide that can be permanently and safely sequestered. This is a long-term concept with commercialization targeted for 2020. Meanwhile, a large amount of research and development is needed to develop the technologies which, when amalgamated, will form a zero emission footprint coal-fired electricity generating plant.

- Enhanced coal bed methane recovery – EPCOR, along with other provincial, national and international organizations, is working with the Alberta Research Council to research methods of exploiting coal bed methane by injecting carbon dioxide into unmineable coal beds to release trapped methane. This process is similar to the common practice of using carbon dioxide to enhance recovery from oil reserves. The injected carbon dioxide is absorbed by the coal and also displaces methane, which can be captured and sold. The objective is to test the feasibility of using this technology to create efficient, zero-greenhouse-gas-emission power plants that use the mined methane gas to create electricity.

- International Test Centre for CO_2 Capture – EPCOR is participating in the operation of a new Research and Development Centre at the University of Regina. This centre is studying different methods for cost-effective removal of carbon dioxide from generating station flue gas streams. EPCOR agreed to participate in the first year of studies and will re-evaluate its participation in subsequent years.

Commercial green power comes of age

In 2001, EPCOR Energy Services and Capital City Savings and Credit Union Limited of Edmonton marked a new stage in the evolution of Energy Services' Green Power Program. Capital City Savings made a commitment to purchase 150,000 kWh of Green Power annually from EPCOR Energy Services, thereby becoming its first commercial Green Power customer.

"We chose to purchase Green Power from EPCOR because we share their commitment to the environment," says Gail Stepanik-Keber, Vice President of Marketing. "Our mission statement says that 'our community role extends to being environmentally responsible where opportunities exist.' Being a local financial services provider and client of EPCOR makes it an obvious synergy."

EPCOR Energy Services' Green Power portfolio consists of energy generated from wind, solar, small hydro and biomass. When customers purchase Green Power, Energy Services ensures an equivalent amount of renewable, low-impact electricity, certified under Environment Canada's Environmental Choice Program^M, is added to the provincial power grid. More than 3,100 residential customers have signed up for the program since its launch in 1999 resulting in 4,670 tonnes of carbon dioxide emissions reductions.

Customer support for the program in 2001 reduced emissions by:

- 2,332 tonnes of carbon dioxide
- 7.1 tonnes of sulphur dioxide
- 4.7 tonnes of nitrogen oxides
- 1.5 tonnes of particulates.

The power of the wind

EPCOR Energy Services' Green Power Program supports environmentally friendly options for power generation. In 2001, the program was expanded to include wind with the addition of Weather Dancer 1. This 72-meter tall, 900-kilowatt wind-generating turbine is a joint venture partnership between EPCOR Power Development Corporation and the Peigan Indian Utilities Corporation. It will produce approximately 2,960 megawatt-hours of electricity each year – roughly the amount needed by 450 homes. It will also offset carbon dioxide emissions equivalent to removing approximately 752 fuel-efficient cars, or 386 Sport Utility Vehicles from the road each year.

Weather Dancer 1 is located on the traditional lands of the Peigan First Nation, near Brockett, Alberta. "The spirit with which EPCOR and the Peigan Indian Utilities Corporation have pursued this project has allowed us to tie together the traditional and technical elements of our lifestyle and open doors to new opportunities for the Peigan," said Peter Strikes With A Gun, Chief of the Peigan Nation.

Greenhouse emissions management

EPCOR, in conjunction with six other Canadian energy companies, established GEMCo, the Greenhouse Emissions Management Consortium, in 1996. GEMCo is a not-for-profit corporation dedicated to developing and utilizing market systems to remove greenhouse gas emissions.

In December 2001, GEMCo completed a trade with Texas-based Petrosource. This trade relates to a project that will permanently store carbon dioxide, instead of releasing it into the atmosphere. EPCOR's share is 180,000 tonnes of emissions reductions.

The ABCs of climate change

In 2001, EPCOR became an "Action by Canadians (ABCs) Champion", the highest level of sponsorship for the ABCs program. The ABCs on climate change program is a national-level, public education and action initiative designed to engage Canadians in voluntarily reducing their individual greenhouse gas emissions. Individuals account for 28 per cent of the greenhouse gas emissions in Canada. The ABCs program provides Canadians with education and strategies to achieve personal reduction goals. The results are then tabulated to determine the overall emissions reductions of the participants.

EPCOR has committed to bringing the ABCs program to its employees and the community as a whole. The company conducted 15 internal and external workshops in 2001 and is anticipating even greater interest from its staff and the general public in 2002. Key ABCs events in 2001 included the Spruce Grove-Stony Plain challenge and the EPCOR media challenge.

ABC Workshop Tools

Clean water – a truly essential element of life

In May of 2000, tragedy struck the small town of Walkerton, Ontario. Seven residents died and more than 2,300 fell ill as a result of water contaminated with E. Coli bacteria.

EPCOR Water Services has some of the strictest water quality standards in Canada. Every year it performs more than 144,000 tests on 222 physical, chemical and microbiological parameters. Water Services' focus on continuous improvement in water quality resulted in requests from Walkerton and North Battleford to help improve water quality management in those communities.

Protecting precious water resources

EPCOR Water Services believes one of the best ways to ensure safe drinking water is to protect the raw water supply. For Edmonton and surrounding communities, this is the North Saskatchewan River.

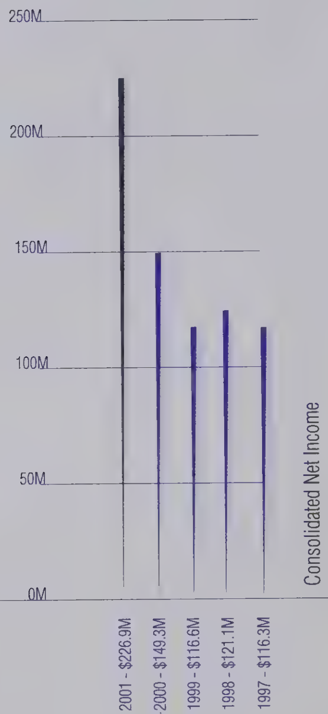
Water Services is actively involved in a number of related watershed projects. These include:

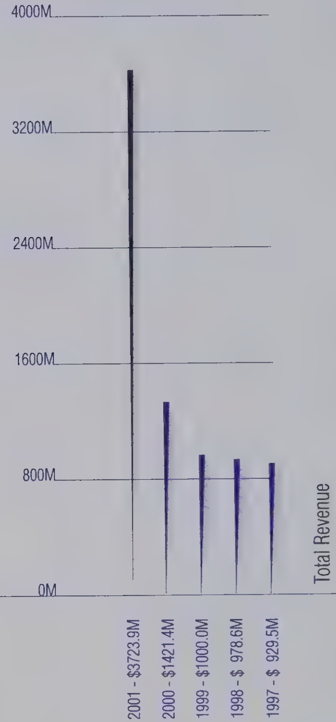
- Participation, along with numerous other partners, in an upstream watershed project to determine sources of *Cryptosporidium* spp. and *Giardia* spp.
- Founding membership in the North Saskatchewan Watershed Alliance (NSWA), which examines ways to maintain and improve river water quality. The group has prepared a background report to initiate the nomination of the North Saskatchewan River as a Canadian Heritage River, the development of an eco-tourism recreation guide and a community watershed toolkit. In 2001, the NSWA initiated work on a two-year project to report on the current state of the North Saskatchewan River watershed.
- Participation in the River Water Quality Task Force (RWQTF) that coordinates projects for an integrated approach to river water quality improvements. Under the RWQTF initiative, EPCOR Water Services, together with Alberta Environment and the City of Edmonton Drainage Services, has set up a common database for river water.

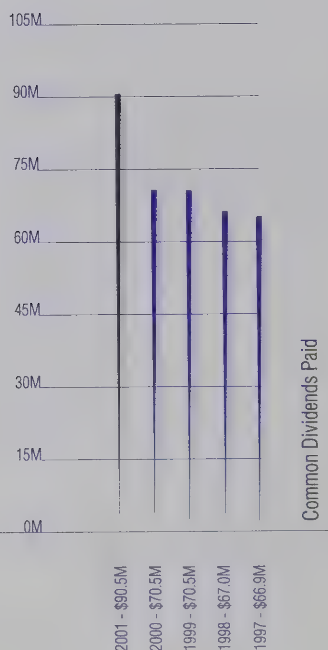
In addition, EPCOR Water Services also sponsors the River Valley Clean Up each spring and 'River Watch' to increase community awareness of watershed protection issues.

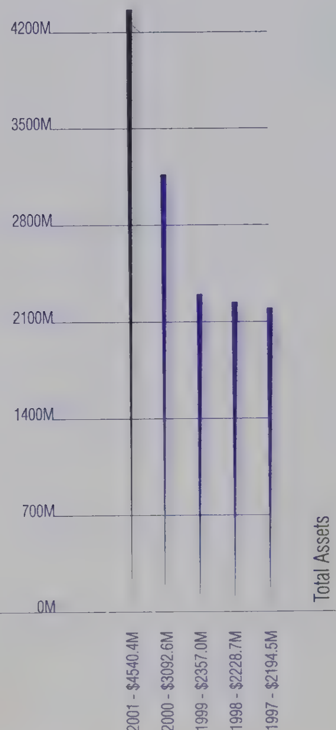
FINANCIAL REVIEW 2001

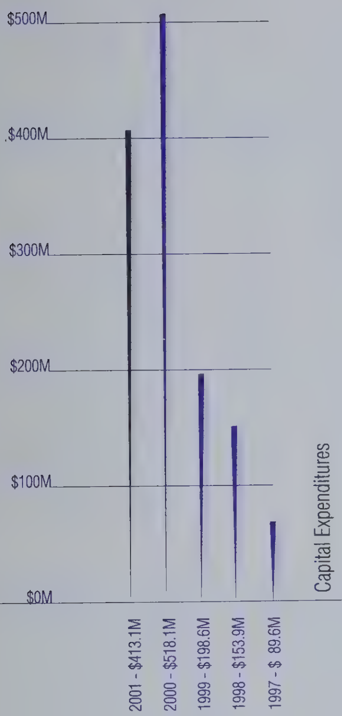
Financial Highlights 1997-2001

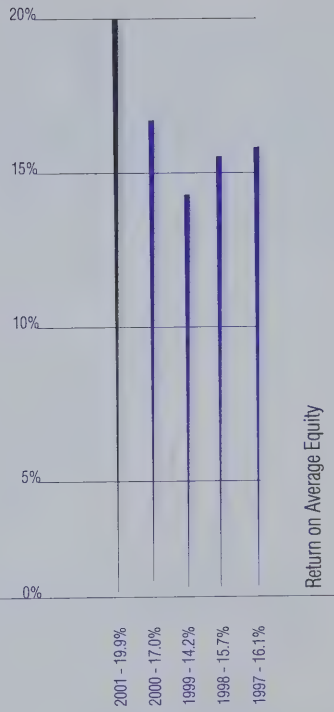


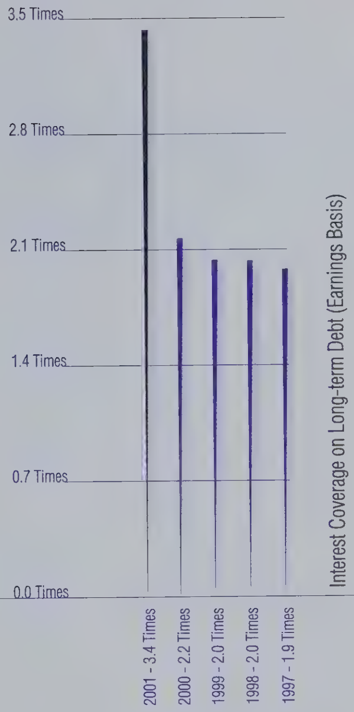


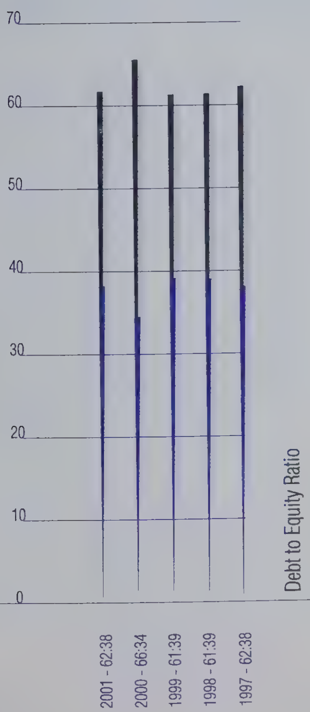


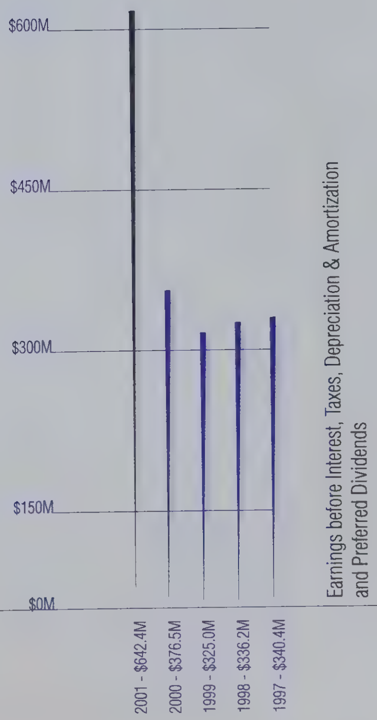



$500M
$400M
$300M
$200M
$100M
$0M
2001 - $413.1M
2000 - $518.1M
1999 - $198.6M
1998 - $153.9M
1997 - $ 89.6M
Capital Expenditures


20%
15%
10%
5%
0%
2001 - 19.9%
2000 - 17.0%
1999 - 14.2%
1998 - 15.7%
1997 - 16.1%
Return on Average Equity


3.5 Times
2.8 Times
2.1 Times
1.4 Times
0.7 Times
0.0 Times
2001 - 3.4 Times
2000 - 2.2 Times
1999 - 2.0 Times
1998 - 2.0 Times
1997 - 1.9 Times
Interest Coverage on Long-term Debt (Earnings Basis)


70
60
50
40
30
20
10
0
2001 - 62:38
2000 - 66:34
1999 - 61:39
1998 - 61:39
1997 - 62:38
Debt to Equity Ratio


$600M
$450M
$300M
$150M
$0M
2001 - $642.4M
2000 - $376.5M
1999 - $325.0M
1998 - $336.2M
1997 - $340.4M
Earnings before Interest, Taxes, Depreciation & Amortization
and Preferred Dividends

Management's Discussion and Analysis

This management's discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Corporation for the years ended December 31, 2001 and 2000. The Corporation's most significant accounting policies are described in this report under Significant Accounting Policies.

Results of Operations

($ millions)	2001	2000
Revenues	$ 3,723.9	$ 1,421.4
Net income	226.9	149.3
Common Dividends	90.5	70.5

Consolidated net income

The consolidated net income for EPCOR Utilities Inc. for the year ended December 31, 2001 was $226.9 million, compared with $149.3 million for 2000. Consolidated revenues were $3.7 billion in 2001 compared with $1.4 billion in 2000. The increase in earnings, revenues and operating costs over 2000 was primarily due to investments made in 2000 and higher power pool prices in Alberta at the beginning of the year. The investments in 2000 included the purchase of retail customer rights, which increased the size of EPCOR's retail electricity customer base, and the purchase of Power Purchase Arrangements (PPAs), which expanded EPCOR's wholesale electricity operations. Distribution and Transmission earnings showed improvement over 2000 on increased distribution tariff revenues while Water Services experienced increased earnings from greater consumption than 2000. Generation earnings in 2001 were lower than 2000 due to reduced generation of power, one-time regulatory adjustments related to 2000 and the deferral of incentives under the PPAs.

Capital spending and investment

Capital spending and investment, including allowance for funds used during and interest on construction, was $413.1 million in 2001 compared with $518.1 million in 2000. The most significant investment in 2001 was the acquisition of Union Energy Inc. and Westcoast Capital Corporation (renamed "EPCOR Energy Securitizations Inc.") from Westcoast Energy Inc. Capital expenditures on new generation projects included the Frederickson I power plant in Washington State as well as initial outlays on the expansion of the Genesee power plant. In 2000, the most significant expenditures were on PPAs and the purchase of rights to provide electricity services to the Alberta customer base of Utilicorp Networks Canada.

($ millions)	2001	2000
Generation – regulated under PPAs	$ 29.8	$ 23.3
Generation – non-regulated	111.8	45.9
Distribution and Transmission	35.0	47.5
Energy Services	26.9	18.8
Union Energy and Westcoast Capital shares	187.8	-
Water Services	18.4	15.9
Corporate and other	3.4	4.1
Power Purchase Arrangements	-	247.8
Utilicorp customer rights and retail operations	-	114.8
	$ 413.1	$ 518.1

Generation

	2001	2000
Generation operations (including inter-segment transactions; $ millions)		
Revenues	$ 640.9	$ 685.2
Expenses		
Operating	463.5	519.8
Financing	90.4	75.8
Income taxes	36.0	(1.2)
	589.9	594.4
Net income	$ 51.0	$ 90.8
Electricity generation (000s of MWh)[1]		
Coal generating units	6,162	6,233
Natural gas generating units	3,468	4,485
Hydro generating units	80	57
	9,710	10,775

[1] Excludes generation from plants not yet considered fully operational.

Generation earnings for the year declined from 2000 primarily due to lower generation production, a one-time regulatory decision related to 2000, an unusual income tax charge and the deferral of incentives under the PPAs in 2001.

Generation revenues in 2001 reflect revenues earned by the Corporation's previously rate-regulated power plants now operating under PPAs and revenues earned from its non-regulated power plants under commercial contracts or spot electricity prices. Effective January 1, 2001, revenues for EPCOR's previously regulated generation plants are derived from PPAs. PPAs were established by the Government of Alberta as the transition mechanism to move previously regulated power plants to full deregulation. PPAs are long-term off-take arrangements between the Corporation (the owner of the generating units) and the holders of the PPAs. Under the PPAs, the Corporation receives formula-based revenue amounts, intended to cover its fixed and variable costs of operations, including actual or deemed income taxes, and provide a fair return on equity. The PPAs also include incentives and penalties to the plant owner for operating above or below the target availability levels set out in the PPAs. In accordance with the Corporation's accounting policy, revenues for plants operating under PPAs are recognized at the long-term price of power implicit in the PPAs. The result is that incentives received are deferred since they are expected to be offset by penalties during outage periods over the terms of the PPAs.

Revenues in 2000 were based on regulated tariffs which included fixed and variable cost recovery amounts plus the spot market price for electricity production after deducting legislated generation obligations and regulated deferral accounts. As a result, 2001 revenues are not directly comparable to 2000.

Generation revenues for 2001 were $640.9 million compared to $685.2 million for the year ended December 31, 2000. The reduction is generally due to lower generation production from the plants operating under PPAs, lower electricity prices than 2000 and the deferral of PPA incentives. In addition, the Corporation recorded a $23.1 million one-time charge ($14.3 million after applicable taxes) in the fourth quarter as a result of a decision by the Alberta Energy and Utilities Board (AEUB) in December 2001 following a hearing to review provincial generators' 2000 regulated deferral accounts. In the decision, the AEUB changed the sharing formulas previously approved for 2000 and ordered EPCOR to pay an additional $23.1 million, including interest, to provincial distribution companies in relation to its 2000 deferral account. EPCOR is appealing and requesting a review and variance of the AEUB decision – see Regulation. The decreases in revenues more than offset increases resulting from recognition of EPCOR's share of the Joffre Cogeneration plant revenues, which commenced in 2001.

Generation operating costs were $463.5 million for the year ended December 31, 2001 compared with $519.8 million for 2000. The decrease in operating costs was primarily due to lower generation levels and the fact that certain PPA holders, at their option, elected to purchase gas directly for the applicable generating units. These lower fuel costs were partially offset by EPCOR's share of operating costs from EPCOR's non-regulated plants as well as higher transmission costs.

Generation financing costs rose over 2000 as a result of the financing costs on the Joffre plant as well as long-term financing provided by EPCOR.

The reason for the increase in income taxes is that, commencing in 2001, EPCOR Generation's plants operating under PPAs became subject to a Payment in Lieu of Tax Regulation under the *Electric Utilities Act* (Alberta). Under the PPAs, a formula based income tax allowance is included in PPA capacity payment revenues and, therefore, the Payment in Lieu of Tax Regulation does not have a significant impact on Generation earnings. Prior to 2001, EPCOR Generation's regulated plants did not incur income taxes of any kind. In addition, EPCOR's subsidiaries holding non-regulated generation plants in Alberta, such as Joffre, are subject to federal and provincial income taxes. Since these plants were operational for the full year in 2001, there is a corresponding increase in income taxes.

Energy Services

	2001	2000
Energy Services operations (including inter-segment transactions; $ millions)		
Revenues		
Energy sales	$ 2,802.3	$ 544.9
Commercial and other	139.9	32.5
	2,942.2	577.4
Expenses		
Operating	2,710.6	547.9
Financing	34.1	(0.1)
Income taxes	72.8	-
	2,817.5	547.8
Net income	$ 124.7	$ 29.6
Retail electricity consumption (000s of megawatt hours)	14,934	6,578
Retail natural gas consumption (000s of gigajoules)	7,324	3,604

Energy Services net income was $124.7 million for the year ended December 31, 2001, up from $29.6 million in 2000. The increase in earnings is mainly due to increased customer volumes in retail operations and expanded wholesale operations. The acquisition of Union Energy Inc. and Westcoast Capital Corporation (renamed "EPCOR Energy Securitizations Inc.") on November 1, 2001 did not have a significant impact on 2001 results.

Energy sales include retail and wholesale electricity sales to customers in Alberta. Energy sales increased by $2,257.4 million to $2,802.3 million for the year ended December 31, 2001. The major drivers of the increased sales and associated earnings were the expansion of the Corporation's customer base arising from the acquisition of customer rights from UtiliCorp Networks Canada in 2000 (which added approximately 360,000 customers), broader wholesale operations resulting from the PPAs acquired in 2000 and higher multi-year contract prices due to higher underlying electricity costs. Included in 2001 revenues are amounts receivable associated with the 2001 Regulated Rate Option collection shortfall – see Regulation.

Commercial and other sales include retail natural gas sales to customers in Alberta and Ontario. They also include sales associated with Union Energy's water heater rental business and heating, ventilation and cooling operations (HVAC). The year-over-year increase in commercial and other sales was primarily due to increased sales of natural gas and two months of revenues for water heater rentals and HVAC.

Operating expenses increased from $547.9 million in 2000 to $2,710.6 million in 2001 mainly due to the expanded electricity customer base, costs associated with the PPAs acquired in 2000, increased natural gas volumes and two months of Union Energy operations. Financing expenses grew as a result of the expanded operations.

Certain Energy Services' electricity operations in Edmonton are subject to the previously mentioned Payment in Lieu of Tax Regulation effective January 1, 2001. In addition, EPCOR's subsidiaries that provide retail and wholesale services outside of Edmonton are taxable corporations and incur federal and provincial income taxes. Prior to 2001, Energy Services incurred no income taxes.

Distribution and Transmission

		2001		2000
Distribution and Transmission operations (including inter-segment transactions; $ millions)				
Revenues				
Distribution	$	151.5	$	189.2
Transmission		33.5		32.8
Commercial and other		34.3		37.0
		219.3		259.0
Expenses				
Operating		177.4		219.8
Financing		17.1		23.6
		194.5		243.4
Net income	$	24.8	$	15.6

Distribution and Transmission earnings for 2001 were $24.8 million compared with $15.6 million in 2000. The increase was generally due to increased revenues due to higher site volumes in on-peak rate periods for distribution settlements, slightly higher transmission tariff revenues and lower interest charges.

Distribution revenues, within EPCOR's distribution service area, are based on performance-based tariff rates regulated by Edmonton City Council. Transmission revenues consist of a recovery of the fixed costs, variable costs and return associated with EPCOR's investment in transmission facilities, and are regulated by the AEUB. Commercial and other revenues consist of complementary unregulated electricity services including transportation and streetlighting services. During the year, EPCOR exited the Ontario meter certification and electrical inspections businesses, neither of which were significant to overall EPCOR operations.

Distribution and Transmission carries EPCOR's amount receivable associated with its 2000 Distribution Deferral Rider that was approved by its regulator, Edmonton City Council. This rate rider was set up to capture significant unanticipated increases in wholesale electricity costs borne by EPCOR in 2000. A portion of this balance was subject to an AEUB hearing that concluded in 2001 with recommendations to the City of Edmonton. The balance of $92.8 million in the 2000 Distribution deferral rider account, which reflects the recommendations of the AEUB, will be collected over a two-year period commencing in January 2002 - see Regulation.

Transmission revenues for 2001 and 2002 have been established through a negotiated settlement with interested parties approved by the AEUB.

Water Services

	2001	2000
Water Services operations (including inter-segment transactions; $ millions)		
Revenues		
Water sales	$ 93.3	$ 88.5
Commercial and other	25.6	17.8
	118.9	106.3
Expenses		
Operating	79.2	67.8
Financing	16.5	18.6
	95.7	86.4
Net income	$ 23.2	$ 19.9
Water sales (megalitres)	124,239	115,585

Earnings and water sales of Water Services increased slightly from 2000 to 2001, primarily due to increased water sales volumes as a result of drier weather conditions than 2000. Commercial and other revenues increased from 2000 levels, reflecting the full year impact of operations and maintenance contracts entered into in 2000 (Canmore and Strathmore, Alberta).

Operating costs in 2001 were higher than 2000 reflecting the greater amount of water treatment and broader commercial operations. Financing costs for Water Services were lower than 2001 due to lower effective interest rates and lower borrowings within the segment.

Consolidated Balance Sheet

Consolidated assets grew from $3.1 billion at December 31, 2000 to $4.5 billion as at December 31, 2001. The primary drivers of the changes in the balance sheet from 2000 to 2001 are summarized below.

Capital investment

As previously noted, the Corporation purchased customer rights in late 2000 which expanded its customer base in Alberta, invested in new generation opportunities and acquired Union Energy Inc. and Westcoast Capital Corporation on November 1, 2001. These changes significantly contributed to the increase in assets and liabilities on the consolidated balance sheet.

Future income tax asset

As noted under Generation and Energy Services, certain operations of EPCOR are subject to the Payment in Lieu of Tax Regulation under the *Electric Utilities Act (Alberta)*. Under the regulation, which was passed in December 2001 and became effective January 1, 2001, the applicable operations are taxed in exactly the same manner as if they were taxable under federal and provincial tax laws. Accordingly, under the regulation, on first becoming taxable on January 1, 2001, these operations were deemed to have disposed of and re-acquired their assets at fair market value at that time. The resulting tax bases of these assets were greater than their net book values giving rise to a future tax benefit associated with the additional deductions available for tax purposes. Under generally accepted accounting principles, the future tax benefit associated with the additional tax deductions available is recognized as a future income tax asset on the balance sheet. Since the initial recognition of the future tax was the result of legislation and did not contribute to current earnings, the corresponding adjustment was recorded as an adjustment to retained earnings.

Fourth Quarter Results

EPCOR's earnings in the fourth quarter were $8.9 million compared with earnings of $34.0 million for the same quarter last year. The significant reduction was due to several unusual items that were recorded in the fourth quarter of 2001.

As a result of ongoing analyses of load settlement data, including transmission line losses, the Corporation determined that data provided by third parties and used for recording and reporting accounting results in earlier months was unreliable. The Corporation revised its estimates of the associated data and recorded a net charge to earnings of $24.6 million after applicable income taxes in the fourth quarter. The Corporation also identified and corrected a fault in its revenue accounting systems that had over-applied certain electricity rates to revenue accrued in previous quarters. This correction resulted in a $1.1 million after tax reduction to reported earnings in the quarter. In addition, as more fully described under Generation and Regulation, the Corporation was required to record a $23.1 million charge to earnings ($14.3 million, after applicable taxes) as a result of an AEUB decision associated with EPCOR Generation's 2000 deferral accounts. Before incorporating the effects of the unusual items and adjustments relating to previous quarters, EPCOR's earnings for the quarter were $48.9 million. This level was higher than the fourth quarter earnings of 2000 of $34.0 million and reflects the expanded operations of the Corporation. EPCOR is restating its 2001 quarterly comparative financial statements to give effect to the load and pricing adjustments.

Significant Accounting Policies

EPCOR follows Canadian generally accepted accounting principles. Generally accepted accounting principles are constantly evolving and change to meet changed conditions. Under generally accepted accounting principles, the Corporation applies thoughtful professional judgement to ensure that its accounting policies are appropriate based on the nature of its operations and types of transactions it enters into. The accounting policies that have a significant impact on the reported results of EPCOR or involve the greatest use of estimates are summarized below:

Revenue recognition under PPAs

The Corporation defers incentive and penalty amounts for its generating plants operating under PPAs since these are long-term arrangements that were designed such that the incentives and penalties are expected to offset each other over the lives of the respective PPAs.

Financial commodity contracts

EPCOR uses contracts-for-differences for risk management purposes. Such contracts are matched to an underlying commodity sale or purchase to fix the price or quantity and are used solely to reduce risk. The contracts are recorded as adjustments to revenues or energy purchases in the period settled.

Amounts in lieu of income taxes

The Corporation accounts for amounts in lieu of income taxes in the same manner as actual Federal and Provincial income taxes, other than tax rate changes, on the basis that amounts are a form of income taxes and their determination is exactly the same as income taxes.

Transactions with trust

The Corporation's water heater rental business, acquired on November 1, 2001, is financed through an independent trust. Since the Corporation does not control the trust, it is not consolidated on the Corporation's balance sheet. At December 31, 2001, the assets of the trust amounted to $307 million and the associated debt of the trust amounted to $307 million.

Revenue and cost recognition using estimates

The Corporation necessarily uses estimates in determining its reported financial results. In 2001, load settlement and reporting issues emerged in Alberta as anomalies in data reported by independent parties were identified throughout the year. EPCOR's procedures employ sophisticated quantitative analyses on the reported data and uses the resulting estimates in recording electricity revenues and associated costs, including unbilled consumption. This data and the associated processes and systems are complex, and EPCOR's estimation procedures will not necessarily identify all errors in settlement data. Any subsequent changes to the data and the associated adjustments to earnings, which could be material, are recorded when they are identified.

Liquidity and Capital Resources

($ millions)	2001	2000	1999
Cash flow from operations	$ 441.4	$ 251.5	$ 204.1
Long-term borrowings during year	552.7	221.1	211.7
Preferred shares issued by subsidiary during year	150.0	-	-
Short-term debt, at end of year	510.8	503.6	181.7

Ratios

	2001	2000	1999
Debt to equity ratio[1]	62:38	66:34	61:39
Interest coverage on long-term debt			
Income before interest and taxes	3.4 X	2.2 X	2.0 X
Earnings before interest, taxes, depreciation and amortization	4.4 X	3.0 X	2.8 X
Cash flow to interest bearing debt (%)	19.9	14.3	15.5

Bond ratings

	2001	2000	1999
Standard & Poor's			
Short-term	A-1 (Low)	A-1 (Low)	A-1[2]
Long-term	A-	A-	A[2]
Dominion Bond Rating Service			
Short-term	R1 Low	R1 Low	R1 Low
Long-term	A Low	A Low	A Low

[1] Equity includes preferred shares issued by subsidiary

[2] Canadian Bond Rating Service ratings (acquired by Standard & Poor's)

Cash flow from operations was $441.4 million for the year up from $251.5 million in 2000. The increase is due mostly to the increase in earnings. Interest coverage improved to 3.4 times and the Corporation's bond ratings were maintained during the year.

Committed bank lines of credit of $500 million plus operating lines of $70 million are available to EPCOR. The committed bank lines back EPCOR's commercial paper program which has an authorized capacity of $500 million. Commercial paper issued at December 31, 2001 was $497 million (2000 - $404 million). The Corporation also maintains $325 million in committed bank lines to provide letters of credit. At December 31, 2001, $85 million (2000 - $211 million) in letters of credit were issued under these facilities. The letters of credit are primarily issued to satisfy security requirements of the deregulated electricity marketplace and to satisfy legislated reclamation requirements.

During 2001, EPCOR raised $530 million (2000 - $200 million) under its medium-term note facility. The notes raised are comprised of $200 million in 7-year, 6.2% debentures, $130 million in 15-year, 6.75 % debentures and $200 million in 10-year, 6.60 % debentures. Subsequent to the year-end, in January 2002, EPCOR raised an additional $300 million of 3-year, 4.6% debentures. Proceeds from these debentures were primarily used to reduce commercial paper outstanding and for general corporate purposes.

EPCOR's share of draws under the Joffre Co-generation Project non-recourse financing was $22.7 million during 2001 (2000 - $11.7 million).

During 2001, a subsidiary of the Corporation issued $150 million in perpetual cumulative, redeemable preferred shares. The shares carry a fixed dividend rate of 5.75% for the first five years, after which the dividend rate is reset at either a new mutually agreed rate or, at the option of the holder, a floating rate which varies with the prime interest rate. The shares are redeemable by the subsidiary at certain times but are not retractable by the holders. Preferred dividends in 2001 amounted to $4.3 million.

The Union Energy water heater rental business is primarily financed through WestCap Trust, an independent asset securitization trust ("the Trust"). Under the terms of the trust agreements, water heaters, associated rental agreements and equipment finance contracts are regularly sold to the Trust and the proceeds are used to retire the short-term debt incurred to finance the water heater acquisitions and equipment finance contracts. The trust property is owned by an independent financial institution ("the Trustee"), in trust for a third party beneficiary. The Trustee has exclusive control over the trust assets. Under an administration agreement, EPCOR Energy Securitizations Inc. ("EESEC") is the Administrative Agent of the Trust. Another independent financial institution, appointed by EESEC, is the administrative sub-agent of the Trust. Under agreement with EESEC, Union Energy provides collection and maintenance services for the trust assets. Under the trust agreements, payments on water heater rentals and equipment finance contracts are paid to the Trust. Remaining amounts, after repayment of trust obligations, are paid to EESEC and Union Energy and recorded as administration fees. In addition, the trust retains security amounts funded by EESEC which will be recoverable in the future. These amounts are recorded as future amounts receivable on the consolidated balance sheet. Since control of the trust resides with the independent trustee and neither Union Energy or EESEC has any equity interest in the trust, the assets and liabilities of the trust are not included in the consolidated balance sheet of EPCOR Utilities Inc.

Common dividends paid in 2001 were $90.5 million up from $70.5 million in 2000, the same amount as 1999. In accordance with the Corporation's dividend policy with its sole common shareholder, the City of Edmonton, common dividends for 2002 will be $100.5 million.

The Corporation is committed to fund various capital projects including Genesee Phase 3 and Frederickson. The total amount of committed capital funding at December 31, 2001 was $52.3 million (2000 - $49.7 million).

Based on its solid capital structure, diversified operations, and re-affirmed bond ratings, the Corporation continues to benefit from good access to capital markets to finance investments and ongoing capital expenditures. The Corporation is planning to pursue an additional preferred share issue and other financing in 2002, as market conditions permit.

Regulation

EPCOR is subject to regulatory legislation, including the *Electric Utilities Act* (Alberta) and the regulations issued thereunder. Following are the key regulatory issues that had an impact on 2001 results and an assessment of their future impact.

2000 Generation deferral accounts

In 1999 and 2000 decisions, the AEUB set the formula to be used for sharing surpluses and shortfalls associated with regulated generators for 1999 and 2000. The sharing amounts were set aside in generation deferral accounts and subsequently paid. For 2000, EPCOR paid entitled distribution companies approximately $67.3 million for surplus sharing. In response to a request for a review and variance of its previous decision, the AEUB, in a multi-party hearing in 2001, re-visited the sharing formulas previously approved for the 2000 generation deferral accounts. In December 2001, the AEUB issued its decision and ordered EPCOR to refund an additional $23.1 million, before applicable taxes, to entitled distribution companies. The amount included $2.0 million of interest. As noted under Generation earlier, this amount has been recognized as a charge to earnings in 2001. EPCOR has filed an appeal with the Alberta Court of Appeal and an application for review and variance with the AEUB in response to the AEUB decision.

At the hearing, the AEUB examined whether the market behavior of the provincial generators was inconsistent with approved tariffs and potentially harmful to customers. The AEUB has not yet issued a decision on this aspect of the 2001 hearing. While the Corporation believes that it is unlikely that further adjustments to its 2000 generation deferral account will result, it is possible that the AEUB could impose further payments to distribution companies. Adjustments, if any, resulting from further changes to the 2000 provincial generation deferral accounts will be recorded in the period that the AEUB decision on this matter is issued. The relevant generating plants now operate under PPAs and there will be no similar deferral accounts or related hearings in the future.

2000 Distribution deferral rider

As noted in the comments under Distribution and Transmission, the AEUB held a hearing in 2001 regarding the 2000 distribution deferral riders. In 2000, the Government of Alberta suspended collection of the deferral riders pending a hearing by the AEUB in 2001. That hearing was concluded in 2001 and EPCOR, on the recommendation of the AEUB and the approval of its regulator, Edmonton City Council, was granted authority to collect the amounts over a two-year period commencing in January 2002. The balance in the 2000 distribution deferral rider account at December 31, 2001 was $92.8 million.

2001 Regulated Rate Option collection shortfall

In November 2000, the Government of Alberta introduced an 11 cent per kilowatt-hour collection limit on electricity energy charges for 2001 for the benefit of customers receiving the Regulated Rate Option ("RRO") service in Alberta. The RRO is available to residential customers until the end of 2005 and to small commercial customers until the end of 2003. Under the applicable regulation, the Corporation, with the approval of the AEUB, will be entitled to collect from customers the excess of the Corporation's prudently incurred cost of electricity to serve regulated customers over the limit. For the year ended December 31, 2001 the estimated RRO collection shortfall recoverable is $301.9 million and this amount has been accrued in Energy Services revenues. The amounts recoverable primarily pertain to the Edmonton and UtiliCorp Networks Canada (UNC) service areas with lessor amounts associated with Rural Electrification Associations and the town of Ponoka. EPCOR concluded a negotiated settlement with RRO customer groups in the UNC service area in 2001 regarding EPCOR's prudence in procuring energy for RRO customers and the amount and the method for collecting the 2001 RRO collection shortfall. The AEUB will review the settlement in 2002 and issue a final decision. The AEUB has, on an interim refundable basis, authorized EPCOR to commence collection of the 2001 RRO collection shortfall over a two-year period, subject to any adjustment that may arise as a result of its 2002 review. EPCOR has also received authority from the City of Edmonton to commence collection of the Edmonton 2001 RRO collection shortfall amount over a two-year period. EPCOR does not expect a reduction to the amounts it has accrued. However, in the event a reduction is ordered, it will be recorded at the time it is determined. This AEUB decision is expected by May 2002.

There are no collection limits in place for 2002. EPCOR reached a negotiated settlement with RRO customers in the UNC service area with respect to energy procurement for the RRO for 2002. For the Edmonton service area, the same procurement process was applied. EPCOR has applied for and received approval from the AEUB and City of Edmonton for its 2002 RRO rates.

Genesee Phase 3

In December 2001, following a hearing, the AEUB approved EPCOR's application to construct a third generating unit at its Genesee site (Genesee Phase 3). The AEUB's approval included a number of conditions which EPCOR has assessed as acceptable. In January 2002, the Corporation gave full notice to proceed to construct the 450-megawatt generating unit with a scheduled completion in early 2005.

Load settlement

Load settlement among retailers, wire service providers, the Alberta Power Pool, and the Alberta Transmission Administrator is governed by a Settlement Code under the *Electric Utilities Act* (Alberta). During 2001, as electricity deregulation unfolded, system settlement issues arose respecting the completeness, accuracy and timeliness of load settlement data provided to provincial retailers. Issues include the quality of meter reading, the accuracy of system meters, the reporting of customer transfers, and the amount of electricity lost in transmission and distribution (line losses). As a result of these issues, in December 2001, based on rigorous load data analysis, EPCOR recorded significant reductions to the reported load information it received from third party load settlement agents during the year. These reductions resulted in lower estimates of consumption and decreases to reported revenues, expenses and earnings. A settlement group formed by the Government of Alberta, involving all interested parties, is examining the issues to determine the appropriate actions to be taken in light of the system settlement issues. An independent audit of the Alberta settlement process is in progress. EPCOR is supporting these initiatives, as it is very important for the industry to have timely and accurate settlement information. Load settlement will continue to be an issue in 2002 until satisfactory improvements to the underlying processes are made.

Code of conduct

Under provincial regulation, EPCOR must adhere to a strict code of conduct to ensure that its distribution wires subsidiary acts in a manner that is fair and equitable to all retailers wishing to operate in EPCOR's distribution service area. In accordance with the code of conduct regulation, EPCOR has a compliance officer, compliance plan and procedures necessary to ensure compliance with the regulation.

Environment

EPCOR complies, in all material respects, with federal and provincial environmental legislation and guidelines with respect to its electricity and water operations. EPCOR continues to work closely with governments of all levels to ensure that the legislated targets are met.

Water quality risks in the EPCOR service areas are generally low and are controlled through stringent water treatment standards and controls. EPCOR complies, in all material respects, with all water quality regulations under which it operates.

Risk Management

EPCOR employs a comprehensive risk management structure that examines the variety of risks impacting the company. The Board of Directors is responsible for approving the Corporation's risk management policies, including value-at-risk and total exposure limits. The Risk Oversight Committee, comprised of senior officers, the Director of Risk Management, and the Director of Internal Audit, meets at least monthly to provide direction and authority on risk management issues including recommending policy changes, reviewing transactions and monitoring EPCOR's overall risk profile. EPCOR's Director of Risk Management is responsible for day-to-day risk management activities. Corporate commodity risks are managed centrally with all positions consolidated to provide the most effective means for assessing and managing risk. Operational risks are managed within each subsidiary. Key areas of risk are outlined below.

Electricity price risk

The Corporation buys and sells electricity in the wholesale market through the Power Pool of Alberta and such exchanges are settled at the hourly Alberta pool price. The Corporation currently uses purchase and sale arrangements including contracts-for-differences and firm price physical contracts for periods of varying duration to manage the Corporation's exposure to pool price variability and maintain the Corporation's exposure within the specified risk limits. Contracts are only established with creditworthy counterparties and employ appropriate security. Due to the lack of market liquidity (limited product availability) and the varying shape of electricity consumption during peak usage hours compared with off-peak usage hours, it is not possible to perfectly hedge all positions every hour. EPCOR does however, balance its electricity book within the limits of its policies, which recognize the limitations of the market. The Corporation only trades in electricity to reduce its exposure to changes in power prices or to match physical or financial obligations.

Electricity sales associated with the Corporation's generating plants that are subject to PPAs are governed by the terms of the PPAs. These sales will be accounted for as long- term fixed margin contracts, which will effectively limit the susceptibility of these operations to varying electricity prices.

Natural gas price risk

Price risk associated with natural gas purchased for the Corporation's natural gas-fired generating stations operating under PPAs is mitigated by the provisions of the PPA which require the PPA holder to pay the generator at a market indexed price or buy the gas outright on behalf of the plant. Natural gas price risk associated with the Joffre cogeneration plant is partially flowed through to the underlying electricity sale price. For the retail natural gas business, EPCOR balances its exposure by only procuring, in advance, enough physical gas delivery to satisfy the natural gas load represented by expected loads from signed contracts, with a small capacity for gas storage. Natural gas exposures are managed to the specific limits established by the Corporation's risk management policies.

Credit risk

Credit risk is associated with the ability of counterparties to various contract arrangements to satisfy their contractual obligations to EPCOR, including payment and performance. Credit risk is managed by making appropriate credit assessments of counterparties, dealing with creditworthy counterparties and where appropriate, requiring the counterparty to provide appropriate security or guarantees. Credit exposures and practices are governed by specific credit limits set out in the Corporation's credit policy.

Operational risk

EPCOR's plant operations are susceptible to outages due to equipment failure, which could make plants unavailable to provide service. This is also true for the generating units associated with the acquired PPAs. Such risks are partially mitigated by the Corporation's and the PPA plant owners' operating and maintenance practices that minimize the likelihood of prolonged unplanned down time. EPCOR has a very strong record of availability as measured against its peers by the Canadian Electricity Association. In addition, the penalty provisions within the PPAs provide appropriate incentives to owners to keep the plants operational. The terms of the PPA also provide "force majeure" protection for high-impact, low probability events concerning major equipment failures. The Corporation's maintenance practices are augmented by the maintenance of strategic spare parts, which can reduce down time considerably in the event of failure. Finally, the Corporation has secured appropriate business interruption insurance through May 2002 to minimize the impact of prolonged outages.

Operational risk in Distribution and Transmission is managed through strong maintenance and safety programs. Operational risk in Water Services is also managed through sound maintenance practices and rigorous quality control testing of water purification.

Government and regulatory risk

The Corporation continues to monitor government activity at the Federal and Provincial level to minimize the risk of actions that may prejudice the operations of the Corporation. For commentary on regulatory matters, see the Regulation section earlier in this report.

Outlook

Incorporating the effects of new business growth initiatives including Union Energy operations, new generation, and final resolution of 2000 and 2001 rate deferral accounts, EPCOR is expecting earnings in 2002 in the same range as 2001. EPCOR is continuing its pursuit of new business opportunities, primarily in power generation and retail electricity. The construction of Genesee Phase 3 will be a focus area for generation management. In 2002, EPCOR expects to launch the sale of natural gas and electricity to the Union Energy customer base as well as to the broader Ontario market. At the same time, EPCOR will protect its electricity and gas customer base in Alberta by ensuring competitive pricing and value-added offerings. EPCOR will continue its pursuit of excellence in the operations of its regulated businesses (Distribution and Transmission and Water) as well as the operation of its previously regulated generating plants operating under PPAs.

Certain information in this report is forward looking and related to anticipated financial performance, events and strategies. When used in this context, words such as "will", "anticipate", "believe", "plan", "target" or similar words suggest future outcomes. By their nature, such statements are subject to significant risks and uncertainties, which could cause EPCOR's actual results and experience to be materially different than the anticipated results. Such risks and uncertainties include, but are not limited to, operating performance, load settlement, regulatory and government decisions, weather and economic conditions, competitive pressures, construction risks, obtaining financing and the performance of partners, contractors and suppliers.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of EPCOR Utilities Inc. are the responsibility of management and have been approved by the board of directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily requires judgement and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgement where estimates were required, and these consolidated financial statements reflect all information available to March 8, 2002. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the audit committee of the board of directors.

The consolidated financial statements have been examined by KPMG LLP, the Corporation's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with Canadian generally accepted accounting principles. The auditors' report outlines the scope of their audit examination and states their opinion.

The board of directors, through the audit committee, is responsible for ensuring management fulfills its responsibility for financial reporting and internal controls. The audit committee, which is comprised of independent directors, meets regularly with management, the internal auditors and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The audit committee reviews the consolidated financial statements and recommends their approval to the board of directors. The external auditors have full and open access to the audit committee, with and without the presence of management.

On behalf of management,

Don Lowry

Donald J. Lowry
President and Chief Executive Officer

Mark Wiltzen

Mark Wiltzen
Senior Vice-President and
Chief Financial Officer

March 8, 2002

Auditors' Report to the Shareholder of

EPCOR UTILITIES INC.

We have audited the consolidated balance sheets of EPCOR Utilities Inc. as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of EPCOR Utilities Inc. as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Edmonton, Canada

March 8, 2002

EPCOR UTILITIES INC.

Consolidated Statements of Income (In millions of dollars)
Years ended December 31, 2001 and 2000

	2001	2000
Revenues:		
Energy sales	$ 3,471.6	$ 1,256.9
Other operating revenues	252.3	164.5
	3,723.9	1,421.4
Operating expenses:		
Energy purchases	2,380.9	399.8
Fuel	189.5	319.6
Operations, maintenance and administration	466.0	278.6
Franchise fee, property taxes and other taxes	45.1	46.9
Depreciation, decommissioning and amortization (note 4)	148.8	105.9
	3,230.3	1,150.8
Operating income before financing expenses	493.6	270.6
Financing expenses (note 13)	150.2	122.5
Income before income taxes and amounts in lieu of income taxes	343.4	148.1
Income taxes and amounts in lieu of income taxes (note 14)	112.2	(1.2)
Income before preferred share dividends	231.2	149.3
Preferred share dividends paid by subsidiary company (note 11)	4.3	-
Net income	$ 226.9	$ 149.3

See accompanying notes to consolidated financial statements.

EPCOR UTILITIES INC.

Consolidated Statements of Retained Earnings (In millions of dollars)
Years ended December 31, 2001 and 2000

	2001	2000
Retained earnings, beginning of year	$ 919.5	$ 840.7
Net income	226.9	149.3
Future income tax adjustment (note 14)	156.2	-
Common share dividends paid	(90.5)	(70.5)
Retained earnings, end of year	$ 1,212.1	$ 919.5

See accompanying notes to consolidated financial statements.

EPCOR UTILITIES INC.

Consolidated Balance Sheets (In millions of dollars)
Years ended December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Accounts receivable (note 2)	$ 779.1	$ 307.8
Other current receivables	192.3	-
Inventories	58.0	23.8
Prepaid expenses	4.3	1.5
Future income tax asset (note 14)	84.2	-
	1,117.9	333.1
Deferred amounts receivable (note 3)	211.8	101.8
Property, plant and equipment (note 4)	2,464.8	2,275.3
Power purchase arrangements (note 5)	226.3	247.8
Customer service rights (note 6)	94.2	105.7
Future income tax asset (note 14)	193.3	5.0
Other assets (note 7)	232.1	23.9
	$ 4,540.4	$ 3,092.6

Approved on behalf of the Board:

Hugh J. Bolton
Chairman of the Board

Janice Rennie
Vice-chair of the Board

	2001	2000
Liabilities and Shareholder's Equity		
Current liabilities:		
Short-term debt (note 8)	$ 510.8	$ 503.6
Accounts payable and accrued liabilities	526.3	357.2
Income taxes and amounts in lieu of income taxes payable	48.4	1.5
Other current liabilities	17.6	4.6
Future income tax liability (note 14)	98.0	-
Current portion of long-term debt (note 9)	72.4	86.6
	1,273.5	953.5
Long-term debt (note 9)	1,629.7	1,171.4
Other non-current liabilities (note 10)	104.8	48.2
Future income tax liability (note 14)	170.3	-
	3,178.3	2,173.1
Preferred shares issued by subsidiary company (note 11)	150.0	-
Shareholder's equity:		
Share capital (note 12)		
Retained earnings	1,212.1	919.5
Contingencies and commitments (note 21)		
	$ 4,540.4	$ 3,092.6

See accompanying notes to consolidated financial statements.

EPCOR UTILITIES INC.

Consolidated Statements of Cash Flows (In millions of dollars)
Years ended December 31, 2001 and 2000

	2001	2000
Operating activities:		
Net income	$ 226.9	$ 149.3
Items not affecting cash:		
Depreciation, decommissioning and amortization	148.8	105.9
Allowance for funds used during construction	(1.9)	(2.5)
Other non-cash items	9.1	2.1
Future income taxes and amounts in lieu of income taxes	58.5	(3.3)
	441.4	251.5
Increase in deferred amounts receivable	(292.9)	(101.8)
Reduction in rate stabilization reserve	-	(18.8)
Change in other non-current items	34.2	(1.8)
Net change in non-cash operating working capital	(263.9)	18.4
	(81.2)	147.5
Investing activities:		
Property, plant and equipment and other assets	(224.1)	(164.4)
Customer service rights	(1.2)	(105.9)
Acquisition of subsidiaries (note 23)	(187.8)	-
Power purchase arrangements	-	(247.8)
	(413.1)	(518.1)
Financing activities:		
Principal payments on long-term debt	(125.1)	(101.9)
Debenture borrowings	530.0	199.3
Non-recourse financing	22.7	21.8
Increase (decrease) in notes payable	(7.2)	322.6
Preferred shares issued by subsidiary	150.0	-
Common share dividends paid	(90.5)	(70.5)
	479.9	371.3
Net increase (decrease) in cash	(14.4)	0.7
Cash (bank indebtedness), beginning of year	0.2	(0.5)
Cash (bank indebtedness), end of year (note 8)	$ (14.2)	$ 0.2

See accompanying notes to consolidated financial statements.

1. Summary of significant accounting policies:

(a) Financial statement presentation:

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

The common shares of EPCOR Utilities Inc. (the Corporation) are owned by the City of Edmonton. The Corporation was established by City Council under City By-law 11071.

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, EPCOR Generation Inc., EPCOR Distribution Inc., EPCOR Transmission Inc., EPCOR Energy Services Inc., EPCOR Energy Services (Alberta) Inc., EPCOR Water Services Inc., EPCOR Technologies Inc., EPCOR Power Development Corporation, EPCOR Power Holdings Corporation, EPCOR PPA Management Inc., EPCOR Merchant and Capital L.P., EMCC Limited, EPCOR Merchant and Capital Inc., 3982891 Canada Inc., EPCOR Energy Securitizations Inc. (formerly Westcoast Capital Inc.), Union Energy Inc., EPCOR Finance Corporation, 812244 Alberta Ltd., and EPCOR Capital Corporation.

(b) Nature of operations:

The Corporation provides regulated and non-regulated electric utility services, natural gas services, water utility services, and complementary commercial services.

(c) Regulation:

EPCOR Transmission Inc. is regulated by the Alberta Energy and Utilities Board (AEUB). EPCOR Distribution Inc. is regulated by the City of Edmonton Council. The AEUB administers acts and regulations regarding tariffs, rates, construction, financing, operations, accounting and service area. The City of Edmonton Council establishes the electrical distribution rates to charge customers within the City of Edmonton.

The Electric Utilities Act of Alberta (EUA) governs the exchange of all electric energy through the interconnected electric system in the province of Alberta. The Power Pool of Alberta (Power Pool) is the market through which all electricity financial exchanges in Alberta are conducted. Generators submit offers to the Power Pool for the supply of energy, and distributors submit demand bids to the Power Pool for their energy requirements. The Power Pool dispatches generators to meet the demand from distributors, and conducts all financial settlements from its market operations. Pursuant to the EUA, the transmission of all electrical energy through the interconnected electric system in the province of Alberta is administered by an independent transmission administrator.

EPCOR Water Services Inc. is regulated by the City of Edmonton Council for water rates to charge customers within the City of Edmonton. EPCOR Water Services Inc. determines the water rates to charge other municipalities. Any Alberta municipality served by EPCOR Water Services Inc. may apply to the AEUB to resolve disputes in connection with rates, tolls or charges.

(d) Revenue recognition:

Revenues are recognized on the accrual basis, which includes an estimate of the value of electricity, natural gas and water consumed by customers in the year, but billed subsequent to year-end.

1. Summary of significant accounting policies, continued:

(e) Generating plant revenues under power purchase arrangements:

Effective January 1, 2001, in accordance with provincial regulation, previously regulated generating units owned by the Corporation began operating under power purchase arrangements (PPAs). PPAs are a form of long-term off-take arrangement between the owner of the generating unit and the buyer of the PPA. Under the terms of the PPAs, which range from 3 to 20 years, the Corporation receives fixed and variable payments to cover the forecast costs of operating the generating units, including amounts in lieu of income taxes, as well as a reasonable return. In addition, the Corporation receives incentives or pays penalties for operating above or below specified availability targets set out in the PPA.

The target levels of generation availability set out in the PPAs recognize that the generating units will experience planned and forced outages over the terms of the PPAs. The Corporation records the electricity revenue from the generating units under PPAs at the long-term price of power embedded in the PPAs, including expected penalties and incentives. Under this approach, incentives for the current period are deferred since they are not expected to be sustained over the full term of the PPA. As penalties are incurred, any balance of deferred incentive will be drawn down. Deferred amounts are included in other non-current liabilities on the balance sheet.

Prior to January 1, 2001, revenues for the Corporation's nine regulated generating units were earned under tariffs approved by the AEUB. Under these tariffs, fixed revenue requirements were established and received through the Power Pool along with revenues at spot energy prices for generation above regulated levels. In addition, a portion of the Corporation's revenue was derived from the provincial Transmission Administrator for providing system support services.

(f) Measurement uncertainty:

The preparation of the Corporation's financial statements, in accordance with generally accepted accounting principles, requires management to make estimates that affect the reported amounts of revenues, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the financial statement date. Certain estimates are necessary since the regulatory environment the Corporation operates within often requires amounts to be recorded at estimated values until finalization and adjustment pursuant to subsequent regulatory decisions, or other regulatory proceedings. Due to inherent uncertainty involved in making estimates, actual results reported in future periods could differ from those estimates.

On January 1, 2001 the Alberta retail electricity marketplace opened to retail competition. The various systems and procedures used by third parties to provide load and settlement data to retailers across the province have been challenged to completely and accurately capture all customer movement, load classification and consumption data. In addition, by regulation, wires services providers are not required to submit final load settlement data on customer electricity usage until eight months after the month in which such electricity was used. The data and the associated processes and systems are complex and are used by the Corporation to estimate electricity revenues and costs, including unbilled consumption. The Corporation's estimation procedures will not necessarily detect errors in underlying data provided by industry participants including wires service providers and load settlement agents. Adjustments to previous estimates, which will impact net income and could be material, will be recorded in the period they become known – see note 21(h).

1. Summary of significant accounting policies, continued:

(g) Inventories:

Inventories held for consumption are valued at the lower of cost and replacement cost. Inventories held for resale are valued at the lower of cost and net realizable value.

(h) Property, plant and equipment:

Property, plant and equipment are recorded at cost and include contracted services, materials, interest, direct and indirect labour, overhead costs and net revenues during the pre-operating period. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers and non-repayable government grants. Contributions received for financing the costs of assets are recorded as a reduction of the related asset cost.

Depreciation and amortization on assets is provided on the straight-line basis over their estimated useful lives. The AEUB approves depreciation rates for regulated transmission assets. Depreciation rates on certain assets include a provision for estimated removal and site restoration costs, net of salvage value, which is recorded as a provision for plant decommissioning on the balance sheet. Upon the retirement of utility assets, the removal and site restoration costs, net of salvage value, are charged to the provision for plant decommissioning.

The Corporation capitalizes an allowance for funds used during construction (AFUDC) to provide for the cost of capital invested in regulated construction activities. AFUDC is applied during construction at the weighted average cost of capital.

(i) Power purchase arrangements:

Power purchase arrangements (PPAs) are recorded at cost and are amortized over their terms on a declining balance basis, effective January 1, 2001.

Power purchase arrangements reflect the price paid by the Corporation in 2000 for the rights to the committed generating capacity of five regulated Alberta generating units auctioned by the Government of Alberta as part of provincial electricity deregulation. Effective January 1, 2001, for the life of the PPAs, the Corporation is obligated to make fixed and variable payments to the owners of the underlying generating units over the terms of the PPAs, which range from 13 to 20 years. Such amounts are recorded as operating expenses as incurred. Sales proceeds from the sale of the committed electricity are recorded as revenue as earned.

The Corporation purchased the PPAs with an equity syndicate under syndication agreements. Under the terms of the agreements, the syndicate members effectively receive their proportionate share of the committed generating capacity in exchange for their proportionate share of the price paid for the PPAs and all payments to the plant owners. The Corporation's investment in the PPAs and its revenues and expenses thereunder are recorded on a proportionate basis, after deducting the equity syndicate's share.

(j) Customer service rights:

Customer service rights represent the costs to acquire the rights to provide electricity or natural gas services to particular customer groups. The costs are amortized on a straight-line basis over terms ranging from 3 to 20 years depending on the expectation of benefit of the underlying customer group.

1. Summary of significant accounting policies, continued:

(k) Other assets:

Customer base represents the cost assigned to the customer relationships associated with the rental assets business acquired in November 2001 and is amortized on a straight-line basis over 20 years – see note 23.

Future amounts receivable represent the accumulation of amounts paid to WestCap Trust (the Trust) to provide the overcollateralization (amounts provided as security in excess of financing requirements) as required under the terms of the trust agreements. The amounts will be recovered as the Trust assets mature or the required level of overcollateralization decreases – see note 18.

Finance contracts are recorded at their principal amounts, including accrued interest, less an allowance for doubtful amounts.

Debenture discounts, premiums and issue expenses with respect to long-term debt are amortized over the life of the debt.

Interest rate swap asset is recorded at its fair value – see note 1(n).

Regulatory costs are recovered or amortized as permitted or required by the AEUB.

Contract rights represent the cost incurred by the Corporation to secure a long-term sales contract for the electricity generated by a plant acquired in 2000. The cost is amortized on a straight-line basis over the term of the contract.

Goodwill represents the excess of the purchase price over the fair values of identifiable net assets or operations acquired. On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have impaired the fair value. Goodwill is not amortized but is written down to fair value when declines in value are considered to be other than temporary.

(l) Investments in joint ventures:

The Corporation and Fording Coal Limited (Fording Coal) each have a 50 percent interest in the Genesee Coal Mine Joint Venture. Fording Coal operates the coal mine. Under agreements governing this joint venture, all coal mined is to be supplied to the Corporation's Genesee generating plant.

The Corporation holds a 40 percent interest in the Joffre Cogeneration Project and a 50 percent interest in the Taylor's Coulee Chute Hydro Project both located in the province of Alberta. The Corporation also holds a 40 percent interest in the Frederickson Power Project in the state of Washington, which is considered to be an integrated foreign operation.

The investments in joint ventures are accounted for using the proportionate consolidation method. Under this method, the Corporation's proportionate share of assets, liabilities, revenue and expenses of the joint ventures is included in the accounts.

(m) Foreign currency:

Foreign currency transactions are translated to Canadian dollars by applying exchange rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at rates of exchange prevailing at that date. Foreign exchange gains and losses are included in income.

1. Summary of significant accounting policies, continued:

(n) Derivative financial instruments:

To reduce its exposure to movements in commodity prices (electricity and natural gas) and interest rate changes, the Corporation uses various risk management techniques including derivative financial instruments. Such instruments may be used to establish a fixed price for a commodity (electricity or natural gas), an interest bearing obligation or an obligation denominated in a foreign currency.

The Corporation uses financial contracts-for-differences (or fixed-for-floating swaps) to fix the price of supply for electricity and natural gas. Under these instruments, the Corporation agrees to exchange, with credit worthy or adequately secured counterparties, the difference between the variable or indexed price and the fixed price on a notional quantity of the underlying commodity for a specified timeframe. Amounts received or paid under contracts-for-differences are recognized as part of the cost of the underlying commodity.

The Corporation may enter into forward interest rate or swap agreements. Amounts received or paid under such contracts are matched to the associated cash flows and recorded as an adjustment to interest expense.

To the extent that the Corporation enters into derivative financial contracts which are not hedges, such contracts are recorded at fair value.

(o) Income taxes:

The Corporation and its subsidiaries are municipally owned, and were exempt from income taxes prior to January 1, 1999. Effective January 1, 1999, under the Income Tax Act (Canada), a municipally owned corporation is subject to income tax on its operations if the income from those operations for any relevant period that was earned outside the geographical boundaries of the municipality exceeds 10% of the total income from those operations for that period.

As a result of these and other provisions, certain subsidiaries of the Corporation are taxable under the Income Tax Act (Canada).

Effective January 1, 2001, pursuant to the Alberta Payment in Lieu of Tax Regulation, the Corporation is required to pay amounts in lieu of income taxes to the provincial Balancing Pool. Such amounts are levied on income from the Corporation's generating units that are subject to PPAs as well as income earned on certain retail electricity services, to the extent that such income is not otherwise subject to income taxes under the Income Tax Act (Canada) or the Alberta Corporate Tax Act. Amounts in lieu of income taxes are determined in the same manner as if the subject operations were taxable under the Income Tax Act (Canada) or the Alberta Corporate Tax Act. There were no amounts in lieu of income taxes prior to January 1, 2001.

The Corporation follows the asset and liability method of accounting for income taxes and amounts in lieu of income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable or recoverable for the current year. Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted rates of tax expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future tax assets and liabilities is recognized in income in the period that includes the date of enactment or substantive enactment.

1. Summary of significant accounting policies, continued:

(p) Employee future benefits:

The employees of the Corporation are either members of the Local Authorities Pension Plan (LAPP) or other defined contribution or defined benefit plans.

The LAPP is a multi-employer defined benefit pension plan. The Trustee of the plan is the Treasurer of Alberta and the plan is administered by a Board of Trustees. The Corporation and its employees make contributions to the plan at rates prescribed by the Board of Trustees to cover costs under the plan. Since the plan is a multi-employer plan, it is accounted for as a defined contribution plan. Accordingly, the Corporation does not recognize its share of any plan surplus or deficit.

The Corporation maintains additional defined contribution and defined benefit pension plans to provide pension benefits to employees who are not otherwise served by LAPP, including employees of new or acquired operations. The aggregate assets and obligations under these plans are not material.

The Corporation maintains a long-term incentive plan for certain employees, which is based on appreciation of the Corporation's value over a specified term. The Corporation accrues such obligations based on the estimated increase in equity value applied to the rights granted under the plan.

2. Accounts receivable:

	2001	2000
Accounts receivable	$ 553.7	$ 278.9
Estimated unbilled consumption (notes 1(f) and 21(h))	225.4	28.9
	$ 779.1	$ 307.8

Notes to Consolidated Financial Statements (In millions of dollars)

3. Deferred amounts receivable:

	2001	2000
2000 Distribution deferral rider	$ 92.8	$ 101.8
2001 Regulated Rate Option collection shortfall	301.9	-
	394.7	101.8
Less: current portion included in other current receivables	182.9	-
	$ 211.8	$ 101.8

2000 Distribution deferral rider

During 2000, the Corporation applied to and received approval from the City of Edmonton to implement a rate-rider to recover from customers the increased costs relating to 2000 spot electricity prices. In November 2000, the Government of Alberta enacted a regulation suspending collection of all 2000 deferral riders in Alberta pending a review of certain elements of the deferral riders by the provincial regulator, the AEUB. The review was completed in 2001 and the recommendations of the AEUB were forwarded to the applicable regulatory authority for its consideration. Upon receiving the recommendation of the AEUB, the City of Edmonton approved resumption of collection of the 2000 distribution deferral rider, including carrying costs, over a two-year period commencing in January 2002.

2001 Regulated Rate Option collection shortfall

In November 2000, the Government of Alberta also imposed an $0.11 per kilowatt hour limit on the amount that could be collected from Regulated Rate Option (RRO) customers for electric energy in 2001. Under provincial regulation, the AEUB must review any costs in excess of the $0.11 per kilowatt hour collection limit for 2001. The recommendation of the AEUB will be forwarded to the applicable regulatory authority for its consideration.

For RRO service provided by the Corporation outside of Edmonton (UNC service area), which is regulated by the AEUB, the Corporation reached a negotiated settlement with RRO customers for energy costs in excess of the $0.11 per kilowatt hour collection limit for 2001. The AEUB authorized collection of the 2001 RRO collection shortfall charge, including carrying costs, in the UNC service area over a two-year period commencing in January 2002 on an interim refundable basis pending its final decision, which is expected in the first half 2002.

For RRO service provided by the Corporation inside the City of Edmonton, the Corporation has applied to the AEUB for a review of energy costs in excess of the $0.11 per kilowatt hour collection limit for 2001. The AEUB recommended to the City of Edmonton that it authorize collection of the 2001 RRO collection shortfall charge in the City of Edmonton over a two-year period commencing in January 2002, on an interim refundable basis pending a final recommendation by the AEUB to the City. The City enacted a Bylaw authorizing implementation of the AEUB recommendation on an interim basis commencing in January 2002 and on a final basis when the final recommendation of the AEUB is received, which is expected in the first half 2002.

Reductions, if any, arising from the 2001 AEUB decision, will be recorded in 2002 – see note 21(f).

Notes to Consolidated Financial Statements (In millions of dollars)

4. Property, plant and equipment:

	2001	2000
Cost		
Generation	$ 1,732.9	$ 1,586.8
Distribution and Transmission	724.1	690.4
Energy Services	81.4	35.1
Water Services	845.0	811.8
Rental assets	50.5	-
Land	74.3	73.5
Other	87.4	78.1
	3,595.6	3,275.7
Contributions	(406.4)	(380.4)
	3,189.2	2,895.3
Construction work in progress	171.2	191.7
	3,360.4	3,087.0
Accumulated depreciation		
Generation	433.0	380.0
Distribution and Transmission	273.7	261.5
Energy Services	13.7	8.5
Water Services	219.6	207.4
Other	33.9	27.8
	973.9	885.2
Contributions	(78.3)	(73.5)
	895.6	811.7
	$ 2,464.8	$ 2,275.3

	2001	2000
Depreciation and decommissioning on assets in service	$ 116.7	$ 110.7
Amortization of contributions	(5.5)	(5.5)
Amortization of other assets	35.0	0.7
Impairment of goodwill	2.6	-
	$ 148.8	$ 105.9

The composite gross depreciation rate for 2001 is 3.5% (2000 - 3.5%). Interest capitalized to property, plant and equipment for 2001 is $3.5 million (2000 - $11.3 million).

Notes to Consolidated Financial Statements (In millions of dollars)

5. Power purchase arrangements:

	2001	2000
Cost	$ 247.8	$ 247.8
Accumulated amortization	21.5	-
	$ 226.3	$ 247.8

6. Customer service rights:

	2001	2000
Cost	$ 107.1	$ 105.9
Accumulated amortization	12.9	0.2
	$ 94.2	$ 105.7

Interest capitalized to customer service rights for 2001 is $nil (2000 - $0.6 million).

In September 2000, the Corporation acquired the rights to provide electricity and natural gas services to the Alberta customer base of UtiliCorp Networks Canada Inc. (UNC) and its call centre. The sale of electricity to the UNC customer base commenced on January 1, 2001.

Notes to Consolidated Financial Statements (In millions of dollars)

7. Other assets:

	2001	2000
Cost		
Customer base	$ 68.6	$ -
Future amounts receivable	63.0	-
Finance contracts	37.6	-
Debenture issue expenses	24.8	18.5
Interest rate swap asset	13.7	-
Regulatory and other	9.7	3.0
Contract rights	8.0	8.0
Goodwill	28.6	4.7
	254.0	34.2
Less: current portion included in other current receivables	9.4	-
	244.6	34.2
Accumulated amortization		
Debenture issue expenses	11.1	9.3
Regulatory and other	0.9	0.6
Contract rights	0.5	0.2
Goodwill	-	0.2
	12.5	10.3
	$ 232.1	$ 23.9

8. Short-term debt:

	2001	2000
Bank indebtedness (cash)	$ 14.2	$ (0.2)
Notes payable	496.6	503.8
	$ 510.8	$ 503.6

Bank lines of credit are unsecured, and are available to the Corporation up to an amount of $570 million of which $200 million is committed until August 2002 and $300 million is committed under a three-year extendible term loan until December 2004. Additional unsecured, extendible bank lines of $325 million have been arranged to provide letters of guarantee to support the Corporation's expanded operations in Alberta's deregulated marketplace. These lines are committed until December 2003.

Notes payable consist of commercial paper issued for remaining terms of 2 to 120 days, bearing interest at rates ranging from 2.14% to 3.95%. The commercial paper issued is backed by the committed bank lines.

Notes to Consolidated Financial Statements (In millions of dollars)

9. Long-term debt:

	2001	2000
Obligation to the City of Edmonton (note 17):		
Due in 1-5 years at 11.62%[1] (2000 - 11.23%[1])	$ 129.3	$ 140.7
Due in 6-10 years at 10.52%[1] (2000 - 10.63%[1])	328.8	354.3
Due in 11-15 years at 9.26%[1] (2000 – 9.66%[1])	138.1	201.6
Due in 16-20 years at 8.75%[1] (2000 – 8.75%[1])	90.3	93.7
Due in 21-25 years at 7.01%[1] (2000 – 7.01%[1])	31.3	31.9
	717.8	822.2
Debentures, at 6.20%, due in 2008	200.0	-
Debentures, at 6.95%, due in 2010	200.0	200.0
Debentures, at 6.60%, due in 2011	200.0	-
Debentures, at 6.75%, due in 2016	130.0	-
Debentures, at 6.80%, due in 2029	150.0	150.0
Non-recourse financing:		
Brown Lake Project, at 8.7%, due in 2016	9.7	10.0
Joffre Cogeneration Project, at fixed and floating rates, due in 2020	94.3	75.8
Other	0.3	-
	1,702.1	1,258.0
Less: current portion	(72.4)	(86.6)
	$ 1,629.7	$ 1,171.4

[1] Weighted average coupon rate

Obligation to the City of Edmonton

Debentures were issued, on behalf of the Corporation, pursuant to City of Edmonton By-law authorization. The outstanding debentures are a direct, unconditional obligation of the City of Edmonton. The Corporation's obligation to the City of Edmonton matches the City's obligation pursuant to the debentures. All of the 8.75% debentures, maturing in the year 2018, rank as subordinated debt. In the event of default on other interest obligations, the coupon and sinking fund payments on the subordinated debt may be deferred for up to a period of five years, not exceeding the maturity date. If still in default at the end of five years, all unpaid payments plus accrued interest thereon may be repaid by issuing common shares to the City of Edmonton. Except for the subordinated debt, the obligation to the City of Edmonton will rank at least equal to all future debt that may be issued by the Corporation.

The Corporation makes annual payments into The Sinking Fund of the City of Edmonton pertaining to certain debenture issues. These payments constitute the settlement of the Corporation's entire contractual obligation with respect to the retirement of this debenture debt.

Notes to Consolidated Financial Statements (In millions of dollars)

9. Long-term debt, continued:

Debentures

The Debentures are unsecured and are direct obligations of the Corporation and, subject to statutory preferred exemptions, rank equally with all other unsecured and unsubordinated indebtedness of the Corporation. The debentures are redeemable by the Corporation prior to maturity at the greater of par and a price specified under the terms of the debenture.

Non-recourse financing

Joffre Cogeneration Project financing represents the Corporation's share, through its subsidiary, EPCOR Power Development Corporation, of syndicated loans for the project. $40 million of the debt bears a fixed interest rate of 8.59% payable quarterly until September 2020 and $8 million bears interest at a fixed rate of 5.06% payable quarterly until December 2004. The remaining debt bears interest at the prevailing bankers' acceptance rate plus a spread of 1.37% which escalates to 1.85% over the term of the loan. The debt is secured by a charge against project assets which have a carrying value of $124 million. Brown Lake Project financing is secured by a charge against project assets which have a carrying value of $14 million.

Principal repayments

Principal repayments to lenders and payments into The Sinking Fund of the City of Edmonton, over the next five years are as follows:

2002	$	72.4
2003		66.2
2004		55.7
2005		52.0
2006		61.8

Notes to Consolidated Financial Statements (In millions of dollars)

10. Other non-current liabilities:

	2001	2000
Deferred incentives on generating plants operating under PPAs	$ 49.4	$ -
Provision for plant decommissioning	46.5	42.6
Other	8.9	5.6
	$ 104.8	$ 48.2

11. Preferred shares issued by subsidiary company:

During 2001, a subsidiary of the Corporation issued 6 million of 5.75% cumulative, redeemable First preferred shares. The dividend rate is fixed for the first five years, after which the dividend rate is subject to reset at either a new mutually agreed fixed rate or, at the option of the holders, a floating rate which varies with the prime interest rate. The shares are redeemable, at $25 per share, by the subsidiary company at certain times but are not retractable by the holders.

Notes to Consolidated Financial Statements (In millions of dollars)

12. Share capital:

Authorized:
Unlimited number of voting common shares without nominal or par value.

Issued:
Three common shares for nominal value to the City of Edmonton.

13. Financing expenses:

	2001	2000
Interest on long-term debt	$ 145.8	$ 124.0
Other interest	3.8	15.2
	149.6	139.2
Loss on interest swap valuation	4.9	-
Other financing expenses	1.1	0.6
Capitalized interest	(3.5)	(14.8)
Allowance for funds used during construction	(1.9)	(2.5)
	$ 150.2	$ 122.5

Cash paid during the year for interest, excluding capitalized interest, was $143.3 million (2000 -$125.0 million).

Notes to Consolidated Financial Statements (In millions of dollars)

14. Income taxes and amounts in lieu of income taxes:

	2001	2000
Income taxes	$ 66.0	$ (1.2)
Amounts in lieu of income taxes	46.2	-
	$ 112.2	$ (1.2)
Comprised of:		
Current income taxes and amounts in lieu of income taxes	$ 53.7	$ 2.0
Future income taxes and amounts in lieu of income taxes	58.5	(3.2)
	$ 112.2	$ (1.2)

Income taxes and amounts in lieu of income taxes differ from the amounts that would be computed by applying the federal and provincial income tax rates as follows:

	2001	2000
Income before income taxes and amounts in lieu of income taxes	$ 343.4	$ 148.1
Statutory income tax rates	41.6%	44.6%
Income taxes and amounts in lieu of income taxes at statutory rates	142.9	66.0
Increase (decrease) resulting from:		
Large Corporations Tax	5.0	0.5
Manufacturing and processing credit	(2.9)	-
Adjustment to future income tax assets and liabilities for enacted changes in income tax laws and rates	(2.0)	-
Income exempt from income taxes at statutory rate	(33.2)	(67.7)
Other	2.4	-
	$ 112.2	$ (1.2)

Income taxes and amounts in lieu of income taxes paid in 2001 were $1.9 million (2000 - $nil).

Notes to Consolidated Financial Statements (In millions of dollars)

14. Income taxes and amounts in lieu of income taxes, continued:

The tax effects of temporary differences that give rise to significant portions of the future income tax asset and future income tax liability at December 31, 2001 and 2000 are presented below:

	2001	2000
Future income tax asset:		
Cumulative eligible capital	$ 107.1	$ -
Non-capital loss carried forward	84.2	1.8
Property, plant and equipment – differences in net book value and undepreciated capital cost	63.0	3.2
Other non-current liabilities	17.1	-
Construction work in progress	4.5	-
Customer service rights	1.6	-
	277.5	5.0
Future income tax liability:		
Income allowance related to securitization of rental assets	98.9	-
Deferred amounts receivable	90.0	-
Deferred income from partnership	52.5	-
Other assets	25.6	-
Property, plant and equipment – differences in net book value and undepreciated capital cost	1.3	-
	268.3	-
Net future tax asset	$ 9.2	$ 5.0
Presented in the balance sheet as follows:		
Current assets	$ 84.2	$ -
Non-current assets	193.3	5.0
Current liabilities	(98.0)	-
Non-current liabilities	(170.3)	-
	$ 9.2	$ 5.0

As noted in note 1(o), effective January 1, 2001 the Corporation became subject to a regulation in Alberta requiring it to pay amounts in lieu of income taxes on certain of its operations. Under the regulation, there was a deemed disposition and reacquisition, at fair value, of the applicable assets subject to the regulation. A future amount in lieu of income tax asset was created since the fair value of the underlying assets for amounts in lieu of income tax purposes was greater than their net book values.

Notes to Consolidated Financial Statements (In millions of dollars)

15. Financial instruments:

Fair value recorded financial assets (liabilities)

	2001	2000
Interest rate swap asset	$ 13.7	$ -
Long-term debt	(1,904.4)	(1,480.0)

The fair value of the interest rate swap asset is based on determining the amount that would have to be received or paid to settle with the counterparty at the year-end date.

The fair value of the Corporation's long-term debt is based on determining a required yield for the Corporation's debt as at December 31, 2001 and 2000 respectively. The required yield is based on an estimated credit spread for the Corporation over the yields of long-term Government of Canada bonds that have similar maturities to the Corporation's debt. The estimated credit spread is based on comparisons to publicly traded debt issues of companies with a similar credit rating.

Fair value of off-balance sheet contracts-for-differences

	Notional quantity (millions of megawatt hours)	Fair value asset (liability)
Electricity sales	5.7	$ 136.1
Electricity purchases	6.1	(38.2)

The fair value of the Corporation's contract-for-differences is determined by estimating the amounts that would have to be paid to counterparties to terminate the contracts at the balance sheet date.

The fair values of all other financial assets and financial liabilities are not materially different from their carrying values.

Credit Risk

Accounts receivable consist of amounts due from retail electricity and natural gas customers as well as industrial customers, other retailers and other counterparties. Larger commercial and industrial customer contracts and contracts-for-differences are secured by letters of credit and other security arrangements. For retail customers, credit losses are generally low across the sector and the Corporation provides for an allowance for doubtful accounts to absorb credit losses. The allowance for doubtful accounts is $17.2 million (2000 - $0.9 million).

16. Regulatory decision:

In 2000, the Corporation's generation business unit recorded the amounts due and payable to provincial distribution companies for its 2000 deferral account in accordance with the approved sharing formulas. In December 2001, following a hearing, the AEUB issued a decision regarding all applicable provincial power generators' 2000 pool price deferral accounts. The decision changed the method of sharing and resulted in the Corporation recording in 2001, an additional cost of $23.1 million, including interest but before applicable taxes, in respect of the revised 2000 sharing amount. The amount was recorded as a reduction to Generation revenues. The Corporation has filed a review and variance (appeal) of this AEUB decision. Any adjustments arising from the appeal will be recorded in the period the decision on the appeal is known.

As part of the AEUB hearing, the AEUB examined whether the structure of the 2000 pool price deferral accounts resulted in provincial generator market behavior that was inconsistent with approved tariffs and potentially harmful to customers. The AEUB has not yet issued a decision on this aspect of the 2001 hearing. While the Corporation believes that it is unlikely that further adjustments to its 2000 generation deferral account will result, it is possible that the AEUB could impose further cost increases. Further adjustments, if any, resulting from further changes to the 2000 provincial generation deferral accounts will be recorded in the period that the AEUB decision on this matter is issued – see note 21(g).

Notes to Consolidated Financial Statements (In millions of dollars)

17. Related party transactions:

The following summarizes the Corporation's related party transactions for the year with the City of Edmonton. All transactions are in the normal course of operations, and are recorded at the exchange value based on normal commercial rates, or as agreed to by the parties.

Transaction	Recorded as	2001	2000
Energy and water sales	Revenues	$ 11.5	$ 17.1
Other services	Revenues	24.6	22.6
Revenues from provision of maintenance, repair, and construction services			
Interest	Financing expenses	94.7	100.2
Interest expense on obligation to the City of Edmonton			
Franchise fee	Franchise fee, property taxes and other taxes	29.5	29.2
Franchise fee at 0.363 cents per kilowatt hour (2000 - 5.2% of qualifying revenues) of qualifying revenues of EPCOR Distribution Inc. and at 8.1% (2000 - 8.2%) of qualifying revenues of EPCOR Water Services Inc.			
Property taxes and other taxes	Franchise fee, property taxes and other taxes	9.0	9.8
All municipal taxes on property owned within the City of Edmonton municipal boundaries			
Operational services	Operations, maintenance and administration	12.0	9.8
Certain costs of printing services and supplies, mobile equipment services, public works and various other services pursuant to service agreements			
Customer billing services recovery	Operations, maintenance and administration	5.8	4.3
Capital construction	Property, plant and equipment	2.7	3.0
Costs of capital construction for water distribution mains and infrastructure programs			

At the end of the year, net balances due from the City of Edmonton totalled $29.3 million (2000 - $26.0 million), including $28.1 million (2000 - $23.2 million) in respect of the negotiated sharing of the earnings of the City of Edmonton Sinking Fund.

Notes to Consolidated Financial Statements (In millions of dollars)

18. Transactions with WestCap Trust:

The Corporation's hot water tank rental and associated financing business, acquired on November 1, 2001 – see note 23, is primarily financed through an independent trust, WestCap Trust (the Trust). Under the terms of trust agreements, water heaters and other finance contracts are regularly sold to the Trust and the proceeds are used to retire the debt incurred to finance the water heater acquisitions and finance contracts. In addition, the Corporation must provide the Trust with cash amounts for overcollateralization (security amounts in excess of financing requirements). The Corporation acts as the administrative agent for the trustee of the Trust. Since November 1, 2001, the Corporation has sold $4.1 million of rental assets to the Trust, deposited $5.1 million to meet security requirements and earned $12.9 million in administration fees.

Since the Corporation does not control the Trust, it is not consolidated in the financial statements. An unaudited summary of the assets and liabilities of the Trust is as follows:

	2001
Cash	$ 13.5
Rental and loan receivables	292.6
Other assets	0.4
	306.5
Short-term commercial paper issued	301.0
Other liabilities	5.5
	306.5
Net assets	$ -

Notes to Consolidated Financial Statements (In millions of dollars)

19. Joint ventures:

A financial summary of the Corporation's investments in joint ventures as at December 31, 2001 and 2000 on a proportionately consolidated basis, is as follows:

	2001	2000
Current assets	$ 24.9	$ 35.8
Long-term assets	285.3	232.3
Current liabilities	24.3	8.0
Long-term liabilities	89.0	76.8
Revenues	86.1	5.5
Expenses[1]	61.5	1.6
Net income	10.5	3.9
Cash flows from (used in) operating activities	18.4	(26.7)
Cash flows used in investing activities	(61.3)	(49.8)
Cash flows from financing activities	18.5	11.7

[1]Excludes all costs of operating the Genesee Coal Mine Joint Venture, which are recorded as fuel expenses by the Corporation.

20. Pension costs:

The required employer contributions for the year to the LAPP and the other pension plans, recorded as pension expense, totalled $6.4 million (2000 - $4.5 million).

Notes to Consolidated Financial Statements (In millions of dollars)

21. Contingencies and commitments:

(a) The Corporation has issued letters of credit for $84.7 million (2000 - $210.6 million) to meet the credit requirements of the deregulated electricity marketplace and to satisfy legislated reclamation requirements.

(b) The Corporation's commitments to capital investments are estimated at $52.3 million at December 31, 2001 (2000 - $49.7 million).

(c) Minimum operating lease payments for premises are approximately:

2002	$	4.3
2003		3.6
2004		2.9
2005		3.0
2006		2.2
Thereafter		8.3

(d) In 2002, under the terms of the PPAs, the Corporation is obligated to make monthly payments for fixed and variable costs. These payments will range from $5.3 million to $21.6 million depending on generation volume and scheduled outages. It is expected that monthly payments over the terms of the PPAs, as described in note 1(i), will approximate the 2002 amounts other than in the event of a forced outage.

(e) The Corporation and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate unrecorded liability of the Corporation arising from these claims is immaterial.

(f) As disclosed in note 3, the AEUB will conduct a hearing into the 2001 RRO Collection Shortfall amounts. The AEUB decision could result in reductions to the amounts the Corporation has recorded for its 2001 RRO Collection Shortfall; however, it is not possible to determine whether any adjustments will be required.

(g) An AEUB decision regarding the Corporation's 2000 generation deferral account hearing is expected in 2002. The nature of this contingent liability is described in note 16.

(h) As disclosed in note 1(f), settlement processes in the Alberta electricity market may result in adjustments to previously settled loads in future periods. The adjustments will result in changes to previous estimates of electricity revenues and expenses. Any such adjustments, which could be material, will be recorded in the period they become known.

22. Segment disclosures:

The Corporation operates in the following reportable business segments which follow the organization, management and reporting structure within the Corporation.

Generation

Generation is involved in the development and operation of regulated and non-regulated electrical generation plants within Alberta, British Columbia and the Pacific Northwest region of the United States.

Distribution and Transmission

Distribution and Transmission is involved in the transmission and distribution of electricity within the City of Edmonton. This segment also provides complementary commercial services including streetlighting and transportation services.

Energy Services

Energy Services is involved in the procurement, marketing and sale of electricity and natural gas in retail and wholesale markets in Alberta and Ontario, hot water tank rentals in Ontario and heating, ventilation, air conditioning and cooling and related financing in Ontario, Manitoba, Alberta, and British Columbia.

Water Services

Water Services is primarily involved in the treatment and distribution of water within the City of Edmonton and other communities.

Changes to segment reporting

Effective January 1, 2001, in concert with provincial electricity deregulation and its organization structure, the Corporation changed the composition of its reportable segments to separately report the operations of Energy Services. Such operations were previously included under Distribution and Transmission (formerly referred to as Distribution, Transmission and Technologies).

Effective January 1, 2001, the Corporation changed its measurement of reportable segment profit and loss from operating income before financing expenses to income before preferred share dividends.

Comparative segment disclosures have been restated.

Notes to Consolidated Financial Statements (In millions of dollars)

22. Segment disclosures, continued:

Year ended December 31, 2001

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	$ 634.2	$ 72.7	$ 2,897.3	$ 118.7	$ 1.0	$ -	$ 3,723.9
Intersegment revenues	6.7	146.6	44.9	0.2	-	(198.4)	-
Total revenues	640.9	219.3	2,942.2	118.9	1.0	(198.4)	3,723.9
Depreciation and amortization	65.3	26.5	45.2	11.8	-	-	148.8
Other operating expenses	398.2	150.9	2,665.4	67.4	(2.0)	(198.4)	3,081.5
Financing expenses	90.4	17.1	34.1	16.5	(7.9)	-	150.2
Income taxes and amounts in lieu of income taxes	36.0	-	72.8	-	3.4	-	112.2
Total expenses	589.9	194.5	2,817.5	95.7	(6.5)	(198.4)	3,492.7
Income before preferred dividends	51.0	24.8	124.7	23.2	7.5	-	231.2
Total assets	1,821.4	538.5	1,720.3	374.5	87.8	(2.1)	4,540.4
Capital additions	141.6	35.0	26.9	18.4	3.4	-	225.3

Year ended December 31, 2000

	Generation	Distribution and Transmission	Energy Services	Water Services	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	$ 685.2	$ 66.8	$ 563.3	$ 106.1	$ -	$ -	$ 1,421.4
Intersegment revenues	-	192.2	14.1	0.2	-	(206.5)	-
Total revenues	685.2	259.0	577.4	106.3	-	(206.5)	1,421.4
Depreciation and amortization	67.3	23.3	4.0	11.3	-	-	105.9
Other operating expenses	452.5	196.5	543.9	56.5	2.0	(206.5)	1,044.9
Financing expenses	75.8	23.6	(0.1)	18.6	4.6	-	122.5
Income taxes and amounts in lieu of income taxes	(1.2)	-	-	-	-	-	(1.2)
Total expenses	594.4	243.4	547.8	86.4	6.6	(206.5)	1,272.1
Income before preferred dividends	90.8	15.6	29.6	19.9	(6.6)	-	149.3
Total assets	1,669.2	434.5	565.4	367.3	60.3	(4.1)	3,092.6
Capital additions	69.2	47.5	133.6	15.9	4.1	-	270.3

Notes to Consolidated Financial Statements (In millions of dollars)

22. Segment disclosures, continued:

The Corporation has capital assets which are currently under construction with an aggregate net book value of $92.3 million (2000 - $33.5 million) located in the United States.

Intersegment transactions occur in the normal course of operations and are recorded at exchange values which are generally at normal commercial rates. Segments are charged amounts for depreciation on corporate assets that are not allocated to the segments for reporting purposes. All other accounting policies of the segments are the same as those disclosed in note 1.

23. Acquisition of Union Energy Inc. and Westcoast Capital Corporation:

Effective November 1, 2001, the Corporation purchased all of the outstanding shares of Union Energy Inc. and Westcoast Capital Corporation from Westcoast Energy Inc. The results of operations of these two subsidiaries have been included in the consolidated results of the Corporation since that date. The two companies are involved in hot water tank rentals, heating, ventilation, air conditioning and cooling (HVAC) and related financing. The aggregate cash purchase price was $187.8 million, subject to closing purchase price adjustments. The following table summarizes the allocation of the purchase price to the estimated fair values of the assets and liabilities of the two companies at the purchase date:

	November 1, 2001
Current assets	$ 121.6
Property, plant and equipment	76.4
Future income tax asset	1.9
Other assets	111.9
Customer base	68.6
Goodwill	28.6
	409.0
Current liabilities	106.3
Other non-current liabilities	2.9
Future income tax liability	95.5
Long-term debt	16.5
Net assets acquired	$ 187.8

The goodwill was assigned to the Energy Services segment of the Corporation. Since the Corporation purchased the shares of these two subsidiaries, the goodwill is not deductible for income tax purposes.

Final adjustments to the purchase price, which are not expected to be material, will be recorded in 2002.

24. Subsequent events:

(a) Following AEUB approval in December 2001, the Corporation announced on January 7, 2002 that it would proceed with Genesee Phase 3, a 450-megawatt coal-fired generating unit to be constructed at the Corporation's Genesee facility. The unit, which is expected to cost $695 million, is scheduled to be in service by 2005.

(b) On January 23, 2002, the Corporation issued $300.0 million of 4.6% 3-year notes under the Corporation's Medium Term Note program.

25. Comparative figures:

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

Corporate Governance

Good Governance is Good Business

EPCOR is governed in accordance with the Alberta Business Corporations Act, a Unanimous Shareholder Agreement (USA) and an Administrative Bylaw adopted by the Corporation's sole shareholder, the City of Edmonton.

Although EPCOR is not publicly traded, the Corporation voluntarily reports on its business practices in recognition of the role good governance plays in a successful business enterprise.

EPCOR's corporate governance practices are summarized under the following six headings:

- Responsibilities of the Board
- Composition of the Board and Committees
- Board Orientation and Evaluation
- Board size and Director Compensation
- Mandate of Management
- Board Independence

Responsibilities of the Board

In 1994 the Toronto Stock Exchange Committee on Corporate Governance in Canada (the Dey Committee) identified five areas in which Boards should assume responsibility for corporate stewardship. EPCOR's Board exercises responsibility in each of the areas recommended by the Dey Committee.

Strategic Planning: The Board conducts a strategic planning session each year prior to the preparation of the Corporation's long term business plan. As well, the Board holds an annual planning meeting with Edmonton City Council as the representative of the Corporation's shareholder.

Risk Assessment: EPCOR's Management has established a Corporate Risk Management Group and a Risk Oversight Committee.

The Corporate Risk Management Group is responsible for identifying and managing all of the risks that the Corporation is exposed to, including operating, technology and energy market related risks. On a quarterly basis the Manager of the Group provides the Board with a formal declaration that the Corporation's energy risk management activities have been undertaken in compliance with the Corporation's policies and practices.

The Risk Oversight Committee is comprised of senior officers of the Corporation, including the CEO. The Committee provides oversight and receives reports on the activities of the Corporate Risk Management Group, approves new energy products, models, methodologies, assumptions and control procedures, and advises the Board on revisions to the Corporation's risk management policies and procedures.

The Board has established an Audit Committee. The Committee is responsible for monitoring, evaluating and advising the Board on all matters affecting the external, internal and special audits of the Corporation's financial and operational control policies and practices. The Corporation's Management provides quarterly financial reports to the Audit Committee and an annual report to the Board.

Succession Planning and Management Performance: The CEO has a written objective making succession planning a priority and the Corporation maintains an active succession management program. The Human Resources and Compensation Committee reviews and reports to the Board on the Corporation's succession planning and Management's skill development.

Communications Policy: EPCOR's shareholder communication program provides for quarterly reporting of material information respecting the Corporation's business activities and performance, an annual planning meeting and an annual general meeting.

The Corporation's AGM is public and encourages the involvement of the Corporation's customers and the general public. The Annual Report includes financial statements, a management discussion and analysis and reports on the Corporation's environmental and social performance.

Internal Controls and Management Information Systems: The Board's Committees monitor the implementation of the Corporation's management systems.

The Board has established the following Committees - Human Resources and Compensation (personnel, remuneration and succession planning), Audit (financial audits, operational control policies and practices and financing plans), Corporate Governance and Nominating (Board and Committee membership, performance and continuous improvement) and Environment, Health and Safety (due diligence and promotion of excellence in environment, health and safety).

Composition of the Board and its Committees

The Dey guidelines provide that the majority of Directors should be free from conflicting interests and that the corporation should disclose any conflicts. EPCOR reports that none of its Directors has a conflict and that none of its Directors has worked for EPCOR, possesses material contracts with the Corporation or receives remuneration from the Corporation in excess of Director's fees and disbursements.

In addition, the guidelines recommend that Committees should generally be composed of non-management Directors. EPCOR reports that all of its Directors, and consequently all of the members of its Committees, are non-management Directors.

Orientation and Evaluation of the Board

The Dey guidelines recommend orientation and educational programs for new Directors, the appointment of a Committee to assess Directors' performance and the establishment of a Committee on corporate governance. EPCOR's corporate governance complies with these guidelines.

Director orientation and education is provided through periodic presentations to the Board, ongoing training in specific areas of interest, including risk management practices and procedures, distribution of articles of interest, plant site meetings and provision of a Board Governance Guide to each Director.

The Board has adopted a Charter of Expectations and has established Board Terms of Reference as standards for evaluating individual and group performance and effectiveness.

The Governance and Nominating Committee is responsible for reviewing the performance and effectiveness of the Board and individual Directors. The Committee involves an independent consultant to evaluate the Board as a whole on an annual basis and individual Directors every two years.

EPCOR's Corporate Governance and Nominating Committee is responsible for reviewing and recommending revisions to the Corporation's governance practices, reviewing and annually reporting on EPCOR's governance performance and undertaking initiatives in support of the Board's delivery of exemplary governance.

Board's Size and Compensation

The Dey Committee recommended that corporations consider reducing the size of their Boards and review Director compensation in light of the risks and responsibilities undertaken by Directors.

The Corporation's shareholder determines the size of EPCOR's Board and the compensation provided to Directors. The Corporate Governance and Nomination Committee makes recommendations to the Shareholder in respect of each of these matters.

Mandate of Management

The Dey Committee also recommended that the Board approve the CEO's mandate and annual corporate objectives.

The CEO's mandate is defined in the Corporation's Bylaws. In addition, the Human Resources and Compensation Committee annually reviews and approves the CEO's written objectives, and evaluates the CEO's performance.

Independence of the Board

Finally, good governance requires that the Board be able to function independently from Management. EPCOR's Board meets this standard. The Board is led by a non-executive Chairman and has no management members. Directors meet independently from Management for a portion of each Board meeting. The Board also retains outside advisors, where appropriate, on matters of importance to the Corporation.

Board Members

Hugh J. Bolton, FCA ■ ✳ ▼ ◆
Consultant & Business Advisor
Corporate Director
Chairman of the Board
Appointed on January 1, 2000

Janice Rennie, FCA ▼ ◆
Principal, Rennie & Associates
Vice-chair of the Board
Director since 1993 (Acting Chair, 1999)

Mary Arnold, FCA ■ (Chair)
Director, Arnold Consulting Group Ltd.
Director since 1998

Mary J. Cameron ▼
Director since 1992

Peter Flynn, P.Eng ✳
Poole Chair in Management for Engineers,
University of Alberta
Director since 1992

Doug Mitchell, Q.C. ■
Managing Partner, Borden Ladner Gervais LLP
Director since 2001

Franklin Kobie, MBA, FCMA▼ ◆ (Chair)
Managing Director, Brookview Consultants Inc.
Director since 1992

Ron Liteplo, BA, LLB, MBA ✳ ▼
Chief Executive Officer, Local Authorities Pension Plan
Director since 1999

Robert L. Phillips ◆
President and CEO, BCR Group of Companies
Director from 1992 to 1998, reappointed 2001

J. Norman Olsen, B.App.Sc., P.Eng. ✳ ◆
Retired, former Chairman and CEO, B.C. Hydro
Director since 1992

Dr. Michael Percy ■ ▼ (Chair)
Dean of Faculty of Business, University of Alberta
Director since 1998

Larry Pollock ▼ ◆
President and CEO, Canadian Western Bank & Trust
Director since 1998

Christopher J. Robb ✳ (Chair)
Managing Director, TractionCapital Inc.
Director since 1998

Officers of EPCOR Utilities

Donald J. Lowry
President and Chief Executive Officer

Brian Vaasjo
Executive Vice President and President
Energy Division

David R. Wright, Q.C.
Executive Vice President, General Counsel and
Corporate Secretary

Mark Wiltzen
Senior Vice President and Chief Financial Officer

Glenn Kosak
Associate General Counsel

Stephen Muir
Vice President and Treasurer

Legend

■ Audit
✳ Environment, Health & Safety
▼ Corporate Governance & Nominating
◆ Human Resources & Compensation

Auditors
KPMG LLP

Bond Trustee
The Trust Company of Bank of Montreal

Origami: Transformation By Design

Origami was chosen as a symbol for this annual report because it is about transformation – transformation by design – and discipline. Origami is about imagination, creativity and the ability to take a basic form and shape it to achieve different goals. It is a fitting symbol for the transformation of EPCOR, which continued in 2001. As this Annual Report illustrates, EPCOR has taken the core elements, which have contributed to the company's previous achievements – commitment to customers, financial success, community, environment and employees – and adapted them to the challenges facing the utilities industry in the 21st century.

When you think of origami, you probably don't think of Prince Albert, Saskatchewan, architecture and Edmonton's Heritage Days Festival. But they all form part of the background of Keith Nunas, the artist responsible for the origami used in this annual report. Originally from Prince Albert, Keith is the senior partner and founding member of A&E Architectural & Engineering Group Inc. in Edmonton. He studied architecture at the University of Manitoba and spent two years working as an architect in Japan. Ten years ago at the Edmonton Heritage Days Festival, Keith developed a fascination with origami while touring the Japanese pavilion. For Keith, origami transforms stress into relaxation and relaxation into the creation of things of beauty.


Keith Nunas

TRANSFORMATION

FOR MORE INFORMATION PLEASE CONTACT: EPCOR CORPORATE RELATIONS, 10065 - JASPER AVENUE, EDMONTON, ALBERTA, CANADA T5J 3B1

PHONE 780.412.3199 **FAX** 780.412.3096 **E-MAIL** INFO@EPCOR.CA **WEB** WWW.EPCOR.CA

EPCOR

essential elements for living